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Austria	[illegible]	Iran	Ris210	Pakistan	Rs35
Bahrain	Din0.700	Israel	Shk3.50	Philippines	Peso45
Belgium	BFr55	Italy	L2000	Poland	Zl 9,000
Cyprus	C£0.90	Jordan	JD1	Portugal	Esc145
Denmark	DKr12.00	Korea	Won 2000	Qatar	QR9.50
Egypt	E£3.25	Kuwait	Fils.500	S.Arabia	SR7.00
Finland	FMk9.00	Lebanon	L£995.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta185
Germany	DM2.60	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr150	Morocco	MDh8.00	Switz	SFr2.50
Hungary	Ft107	Neth	Fl 3.25	Thailand	Bht50
Iceland	IKr160	Nigeria	Naira12	Tunisia	Din0.800
India	Rs15	Norway	NKr12.00	Turkey	L2000
Indonesia	Rp3100	Oman	OR1	UAE	Dh7.00

EC POLICY

The knives are finally out for Cap

Page 14

World News

Hindu party deserts Singh and threatens general strike

Indian PM Vishwanath Pratap Singh has refused to resign after the right wing BJP deserted his coalition and threatened a general strike today. This followed the arrest of the BJP leader, Lal Krishan Advani, as he led a march to build a Hindu temple on the site of an old mosque.

Without the support of the BJP, which has 88 seats in parliament, it is doubtful whether Mr Singh can survive a vote of confidence. Page 16; analysis Page 4

Budget stalemate

An early end to the US budget crisis appeared increasingly uncertain. Meanwhile, the Pentagon has reached agreement with the House and Senate on a $288.3bn defence spending bill. Page 16; Page 6

Pakistan votes

Pakistan voters go to the polls today as the government added another charge against Ms Bhutto and extended her husband's detention. Page 4

Troops on alert

Troops were placed on alert in the Philippines after radical unions vowed to halt industries and transport with a strike today, and communist guerrillas bombed two oil company offices.

Althusser dies

French philosopher Louis Althusser, best known for his interpretations of the works of Karl Marx, Sigmund Freud and Mao Tse-tung, has died aged 72.

Packer surgery

Australian billionaire Kerry Packer, 52, who had a heart attack 16 days ago, is in a satisfactory condition after heart bypass surgery.

Turks poisoned

Twenty-three people, half of them children, have died in a week in Istanbul after eating poisonous mushrooms.

Zanzibar poll

Former minister Salmin Amour has been elected president of the autonomous Tanzanian island of Zanzibar, winning 97 per cent of the vote in one-party elections held on Sunday.

Israel clamps down

Israeli defence minister Moshe Arens has ordered the occupied West Bank and Gaza Strip closed from today following another day of violence in which one Palestinian was shot and three injured, and four Jews were stabbed by Arab workers. Page 4

PAC founder dies

Zephania Mothopeng, who broke away from the ANC to help found the militant Pan Africanist Congress, died two years after his release from prison. He was 77.

Czech cabinet rift

Czechoslovakia's prime minister, Mr Marian Calfa, is coming under increasing pressure to resign, amid a widening rift between President Vaclav Havel and Mr Vaclav Klaus, the finance minister. Page 2

Canada in recession

Canada has officially slipped into recession, with output falling for two successive quarters, according to finance minister Michael Wilson. Page 6

French judges strike

Hundreds of French judges, prosecutors and prison administrators have gone on strike, virtually paralysing the country's legal system.

Superman to wed

DC Comics has announced that after 52 years, Clark Kent, otherwise known as Superman, will finally propose marriage and admit his true identity to his girlfriend Lois Lane, but only after red kryptonite has removed his super-strength.

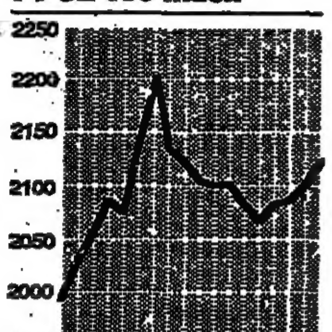
Business Summary

Murdoch is optimistic on future of News Corp

Mr Rupert Murdoch has dismissed the stockmarket's recent sell-off of News Corporation's shares and indicated to shareholders how he would revive the earnings performance of the media group. After the Australian stockmarket had digested his comments the price of News Corporation shares jumped 54 cents to A$6.10 ($4.72). Page 17

MARKETS: London stocks: Equities shrugged off a lower opening on Wall Street to trade firmer in generally thin late business. The market was buoyed by the narrowing UK trade deficit for September and the recent weaker trend in oil prices, with the FT-SE 100

FT-SE 100 Index



index closing up 25 points at 2,127. Wall Street: The Dow Jones Industrial Average fell 22.03 to close at 2494.06. Tokyo: Nikkei average improved for the seventh consecutive trading day to close at 25,298.30, up 227.44. Back Page, Section II

GIANCARLO Parretti, has paid $967m towards his $1.3bn takeover of MGM/UA, legendary Hollywood studio. Page 17

BERLINER Handels-und Frankfurter, west German universal bank, has been given the go-ahead by Bonn to take a 64 per cent stake in the east German Deutsche Handelsbank. Page 17

PHILIPS, Dutch electronics group, said it has reached a $9.25m settlement with US shareholders who sued the company for allegedly misleading investors about the outlook for results. Page 17

HACHETTE, the French publishing and media group, got the go-ahead to take control of La Cinq, the loss-making private television channel, ending an 18-month battle.

US government will have greater leverage to secure fair access for US banks and financial service groups in foreign markets under new legislation approved by a Senate/House of Representatives conference. Page 6

POLLY PECK International's directors meet today in London to hear whether Mr Asil Nadir, chairman of the troubled fruit, electronics and leisure group, has obtained sufficient funds to avoid the appointment of administrators. Page 17

RJR NABISCO, food and tobacco group, reported a sharp jump in third quarter operating income and an 81 per cent decline in net losses, which dropped to $98m from $447m a year ago. Page 20

FRANCE's trade deficit widened sharply last month to a seasonally adjusted FFr10.13bn ($2bn), against FFr5.81bn in August, far worse than even the most pessimistic forecasts. Page 2

EXCELL Communications, UK mobile telephone operator, has gone into receivership marking what is thought to be the first service provider to go out of business since the mobile telephone sector began its spectacular growth a decade ago. Page 7

Japan's leading securities houses post sharp profits fall

By Stefan Wagstyl in Tokyo

JAPAN'S four largest securities brokers yesterday posted their biggest declines in profits since the 1973 oil shock, revealing the full impact of this year's slump in Tokyo's financial markets.

Parent company results for the six months to end September were even worse than the companies had forecast a few weeks ago, with the declines in pre-tax profits ranging between 55.1 per cent for Nomura Securities, the largest company, to 74.2 per cent for Nikko Securities and Yamaichi Securities. Daiwa Securities saw profits fall 58.6 per cent.

Nomura recorded pre-tax profits of Y111.8bn ($887.5m), Daiwa Y69.2bn, Nikko Y33.6bn and Yamaichi Y30.4bn.

Just as Nomura did better than its rivals in the boom years of the 1980s, this time it managed to limit the damage better than the other three houses, mainly by controlling losses more effectively on in-house trading operations.

The biggest hole in the profits of all four houses was blown by the decline in stock market trading volumes, which hit income from equity broking, the single most important source of operating revenues.

With turnover on the Tokyo Stock Exchange in the six months down 29 per cent on the

Firm	Revenue Ybn	% change	Pretax profit Ybn	% change	Net profit Ybn	% change
Nomura	339	-30.2	111.8	-55.1	55.5	-48.5
Daiwa	243	-26.7	69.2	-58.5	32.7	-58.6
Nikko	183	-37.6	33.6	-74.2	20.2	-68.1
Yamaichi	172	-38.7	30.4	-74.2	19.3	-65.3

previous year, stockbroking commission income fell sharply by 25.7 to 30.5 per cent. This pushed down total operating revenues by 26.7 to 37.5 per cent.

The effects were compounded by results from own-account securities dealings, where only Nomura recorded a profit – Y27.5bn, a decline of 71 per cent. Nikko posted the largest loss – Y27.4bn, due to a heavy loss in bond dealing. For all four companies profits from dealing in equity warrants, a big money-spinner last year, collapsed by 68-99 per cent.

The picture in underwriting was equally bleak, with Japanese companies unable for a time to issue any equity-related instruments at all and later able to tap the market in only very modest amounts. Nomura reported that underwriting income in the six months was only 32 per cent of the comparable figure for last year, with income from equity underwriting falling by 90 per cent.

However, the companies were cushioned from the worst effects of the downturn in operating income by a sharp increase in financial income, as they earned higher interest on their cash reserves.

Nomura's gross financial revenues rose 32.9 per cent to Y100.8bn.

The results would have been worse had it not been for a rule change by the Ministry of Finance which allowed the companies to treat book losses on securities holdings as extraordinary items. In the past these have been accounted for above the line. Such losses totalled Y8bn for Nomura, Y16.6bn for Daiwa, Y9bn for Nikko and Y5.7bn for Yamaichi.

Commenting on the figures, the companies blamed market conditions for their performance.

Nomura said interest rates edged upwards due to inflationary pressures generated by the weakness of the yen, a labour shortage and the sudden rise in oil prices following Iraq's invasion of Kuwait.

US tries to squash Saudi hint of deal with Iraqi invaders

By Victor Mallet in Dhahran, Lionel Barber in Washington and Alison Smith in London

PRESIDENT George Bush yesterday struggled to repair the damage caused by Saudi Arabian hints that its ruling family would back a face-saving deal to end Iraq's invasion of Kuwait.

Amid signs of drift within the US-led coalition against Baghdad and Saudi unease about the prospect of war, Mr Bush sought to recapture the initiative yesterday by repeating his comparison between President Saddam Hussein of Iraq and Adolf Hitler, a tactic which worked well in the early stages of the Gulf crisis.

"There's a parallel between what Hitler did to Poland and what Saddam Hussein has done to Kuwait," he said in a speech in Vermont.

Mr Bush also sought to stiffen his allies' resolve by ruling out any deal which rewarded Iraq's aggression and decried the "rape of Kuwait" by Iraqi troops. "These are crimes against humanity. There can never be compromise, any compromise, with this kind of aggression."

Alarm spread throughout the US administration this week after Prince Sultan, Saudi Arabia's defence minister and brother of King Fahd, hinted that Kuwait ought to make territorial concessions to Iraq if Baghdad withdrew from Kuwaiti territory.

The Prince later said his comments to Arab journalists were misinterpreted. But King Fahd of Saudi Arabia on Monday followed his brother's comments with an appeal to Mr Saddam to heed reason and withdraw his forces from Kuwait.

"If president Saddam were to reconsider the matter seriously, he would find that it is in Iraq's interest and in his interest personally and in the interest of the Arab nation that he withdraw from Kuwait," he said during a visit to Saudi Arabia by President Hosni Mubarak of Egypt.

In an apparent reflection of his desire to avoid a war, the king said: "If something wrong was done, we should not try to redress it by another wrong. I believe that we should try to redress the wrong by something right."

King Fahd called the Iraqi invasion of August 2 "a blunder" and urged Mr Saddam to be reasonable and pull out. "I do not think that this would bring any disgrace on Saddam," he said.

His remarks suggested Saudi Arabia now accepted Iraq would be able to withdraw without loss of face or the overthrow of Mr Saddam. The conciliatory tone of the statements by the two Saudi leaders contrasted with bitter Saudi condemnation of the Iraqi president in the early days of the crisis, and with the tone of Mr Bush's latest statements.

Senior US officials were concerned that Prince Sultan appeared to be giving an advance commitment that territorial grievances would be redressed after withdrawal. This came close to rewarding Mr Saddam for his aggression, a US official said.

The US sought further clarification of these Saudi statements during a meeting yesterday between Prince Bandar, Saudi Arabia's ambassador to Washington, and Mr James Baker, US Secretary of State, at the State Department.

In London meanwhile Mrs

Continued on Page 16

Saudis tone down war of words; More Jews injured, Page 4

Iraq's parliament voted yesterday to free all 330 French captives in Iraq and occupied Kuwait, following a debate ordered by Iraqi president Saddam Hussein.

Mr Edward Heath, the former British prime minister, was due to arrive at London's Gatwick airport early this morning with 33 British men freed by Iraq as a result of his humanitarian mission to Baghdad. He said he had also received personal guarantees from Mr Saddam that up to 35 more British men would be allowed to leave within the next month.

Fourteen elderly or sick US hostages flew to freedom yesterday following a humanitarian mission by the American-Iraqi Association.

Financing unity might lead to rise in German interest rates

By Andrew Fisher in Frankfurt

GERMANY'S official interest rates might rise if capital markets were forced to finance too much of the cost of unity, Mr Hans Tietmeyer, a senior director of Germany's Bundesbank, warned yesterday.

Reinforcing the central bank's determination to maintain tight monetary policy, he stressed that it opposed "unrestrained borrowing by German public bodies on the capital markets to finance German unification".

Instead, all public bodies should introduce radical spending cuts in order to avoid raising taxes, said Mr Tietmeyer, who has been a close adviser to Chancellor Helmut Kohl on unification.

Mr Helmut Schlesinger, deputy president of the Bundesbank, suggested further privatisation to help meet some of the unity costs.

Mr Tietmeyer said government transfers of at least DM40bn ($26bn) this year and DM60bn in 1991 would be needed to enable east Germany to cover its budget deficit, meet social security needs, revamp industry, modernise the infrastructure, and take over its foreign debt.

"If transfers were financed largely by bonds, there could be pressure for interest rates to rise and for monetary policy to become more restrictive to counter an overly expansionary fiscal policy," he said.

Bundesbank officials have made it clear in recent weeks

Continued on Page 16

Privatisation could help meet the bill, Page 2

EC may resolve farm reforms impasse this week

By William Dullforce in Geneva

EUROPEAN Community foreign and agriculture ministers might resolve the impasse over the EC's farm reform plan on Friday, by agreeing to compensate farmers hurt by the proposed 30 per cent cut in farm subsidies.

The EC Commission aims to re-submit the plan originally proposed by Mr Ray MacSharry, agriculture commissioner, together with a package of "accompanying measures" – a euphemism for financial aid from the EC budget – officials said yesterday.

The offer of compensation, which must be in the form of direct income supports that do not stimulate production, will, it is hoped, be enough to reassure Chancellor Kohl he can count on the farmers' votes in unified Germany's general election in December.

Brussels' failure to table its offer on farm subsidies in Geneva by the October 15 deadline has brought the four-year Uruguay Round of trade liberalising talks to the verge of breakdown less than six weeks before the final meeting of world trade ministers in Brussels in December.

German, French and Irish opposition has blocked approval of the MacSharry plan in three meetings of EC farm ministers and two foreign ministers' councils in the past two weeks. The main obstacle has been Chancellor Kohl's insistence on a less radical proposal which would not endanger his electoral victory.

Friday's joint meeting of EC farm and foreign ministers in Luxembourg offers the last chance of resolving the impasse before the EC summit of heads of government in Rome at the weekend. Mr Kohl has refused to have the farm proposal or the Uruguay Round put on the agenda for the summit, which is scheduled to focus on EC economic, monetary and political union.

Proposals for financial aid to farmers most severely exposed to subsidy cuts were presented to EC foreign ministers on Monday, but rejected as insufficient by Mr Hans-Dietrich Genscher, the German minister. He insisted compensation had to cover all farmers whose incomes were likely to suffer.

Even if the MacSharry plan is finally approved, the manner of its approval will leave EC negotiators with little scope for compromise in the world farm reform talks. "Anybody who thinks the EC is in a political position to offer more is just not serious," an official said.

Yet the 30 per cent subsidy cuts provided for in the MacSharry plan are far distant from the 90 per cent cuts in export subsidies sought by the US and the 13 farm-exporting nations in the Cairns Group.

The US and some Cairns Group countries warn they will walk away from the Round, unless they win a satisfactory outcome in agriculture.

EC negotiators said yesterday that results still attainable in such areas as services, textiles, intellectual property rights, tropical products and improvements to Gatt's dispute settlement mechanism would be too valuable to sacrifice for a modest farm reform.

Thatcher sets the stage for clash over a single currency

By Ralph Atkins in London

MRS MARGARET Thatcher, Britain's prime minister, yesterday rejected without qualification a single currency for Europe, presaging a clash with other European Community leaders at this weekend's summit in Rome.

Her comments in the House of Commons appeared to undercut efforts by Mr John Major, Chancellor of the Exchequer, to portray his proposals for a hard Ecu as a plan which might led to a single currency. The European Currency Unit (Ecu) is a common unit of currency throughout the EC whose value is set in member states' own currency.

Mrs Thatcher's intervention also highlighted the fundamental division within the Conservative Party over economic and monetary union (Emu).

Mr Nigel Lawson, the former Chancellor, underlined the division within the Conservative Party, saying it was a "real tragedy" that Britain had not entered the ERM five years ago. If it had done, there would have been no confusion with debate over Emu.

He said the Treasury should have cut interest rates after joining – not at the same time. "The conjunction of the two, sadly, has led to a degree of cynicism in the financial markets for which we are going to have to pay a price". A cut in interest rates would be deferred for longer than would other wise have been the case.

Answering a question from Mr Paddy Ashdown, Liberal Democrat leader, Mrs Thatcher said: "A single European currency would mean a form of economic and monetary union in which this House [of Commons] would give up control of monetary policy and economic policy."

Reflecting her gut opposition to a single currency, she accused Mr Ashdown of wanting the House of Commons to accept a policy which would "denude it of its powers".

But later, opening a full-scale Commons debate on the ERM, Mr Major stuck to formula first used this month at the Tory party conference by saying Britain opposed "the imposition" of a single currency and monetary authority in Europe.

Mr Major said the UK would not play a "wrecking role" at December's inter-governmental conference on Emu. His proposals for a hard Ecu left open the possibility of moving towards a single currency "if that were the wish of governments and of people". He added, however, that it "was subject forever to the check of the House of Commons".

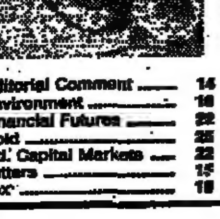
The tight discipline that had to accompany ERM entry was emphasised by Mr Major. That meant "no further reductions in interest rates under it is prudent to do so". He said there had to be a "cultural change" for many wage negotiators, with no prospect of a currency devaluation being used to help uncompetitive companies. The retail price index should no longer be used as a benchmark for pay rises.

Addressing accusations that the highest paid were getting the biggest rises, Mr Major said: "Leadership in that does need to come from the top."

Markets, Section II

CONTENTS

Putting Bhutto and democracy to the test in Pakistan



Pakistanis go to the polls today to vote in an election which many thought would not take place, and which will decide the political fate of Benazir Bhutto, the ousted prime minister. Page 4

MARKETS

STERLING
New York close
$1.9473 (1.9425)
London:
$1.948 (1.949)
DM2.9525 (2.955)
FFr9.885 (9.89)
SFr2.485 (same)
Y248.0 (245.5)
£ Index 94.5 (94.4)

GOLD
New York: Comex Dec
$374.0 (372.4)
London:
$372.0 (368.25)

N SEA OIL (Argus)
Brent 15-day Dec
$28.55 (26.65)

Chief price changes yesterday: Page 17

DOLLAR
New York close
DM1.5175 (1.51805)
FFr5.078 (5.0815)
SFr1.2795 (1.28365)
Y127.80 (125.975)
London:
DM1.5175 (1.516)
FFr5.080 (5.075)
SFr1.2815 (1.2805)
Y127.45 (126.0)
$ Index 60.6 (60.4)
Tokyo close: Y127.13

US closing rates
Fed Funds $7\frac{7}{8}$% ($7\frac{11}{16}$)
3-mo Treasury Bills: yield: 7.42% (7.45)
Long Bond: $99\frac{17}{32}$ ($99\frac{31}{32}$)
yield: 8.76% (8.742)

STOCK INDICES
FT-SE 100: 2,127.0 (+25.0)
FT Ordinary: 1,654.7 (+21.1)
FT-A All-Share: 1,025.74 (+1.0%)
FT-A World Index: 478.3
New York close
DJ Ind. Av. 2,509.16 (-6.93)
S&P Comp 314.45 (-0.31)
Tokyo: Nikkei 25,298.30 (+227.44)

LONDON MONEY
3-mo Interbank close: $13\frac{7}{8}$-$13\frac{3}{4}$% ($13\frac{15}{16}$-$13\frac{13}{16}$)
Liffe long gilt future: Dec $84\frac{1}{4}$ ($84\frac{1}{2}$)

Gulf crisis sends French trade deeply into red

By William Dawkins in Paris

FRANCE'S TRADE deficit widened sharply last month to a seasonally adjusted FFr10.13bn (£1bn), against FFr5.81bn (£580m) in August, far worse than even the most pessimistic forecasts.

Around half the FFr4.32bn swing (to the worst monthly figure for more than four years) is due to a heavier than expected build-up of oil stocks by industrial companies and households, worried that the Gulf crisis might hit supplies as winter arrives. According to provisional figures from the customs service, the energy deficit grew from FFr7.85bn in August to FFr9.88bn last month.

However, even after last month's poor performance, the seasonally adjusted overall deficit of FFr32.35bn for the first nine months is only slightly worse than the FFr31.16bn for the same period of 1989. So the government is sticking to its budget forecast of a slight improvement in the trade deficit for the year, to FFr40bn, as against the FFr43bn trade shortfall in 1989.

The rest of last month's change is spread more or less evenly across all sectors. The deficit on the industrial account, including military equipment, widened from FFr6.51bn to FFr7.51bn, within which the surplus on military exports fell from FFr2.93bn to FFr1.88bn. France exported six Airbus aircraft last month, for FFr1.31bn, slightly down on the seven sold for FFr1.8bn in August. Meanwhile, the surplus on the agricultural produce account fell from from FFr4.27bn to FFr2.97bn.

"It's not a matter of France pricing itself out with a strong franc. These figures simply show that the French economy is getting weaker in line with other continental European countries," said Mr Bernard Godement, senior French economist for Nomura Research Institute in Paris.

France's deficit with its European Community partners expanded from FFr4.59bn to FFr7.47bn. Germany accounts for the largest part of the EC imbalance, though, unusually, France also registered a small deficit of FFr100m with Britain last month.

Estonia to erect customs barriers with rest of Soviet Union

By Quentin Peel in Moscow

THE PARLIAMENT of the rebellious Soviet republic of Estonia, smallest in the union and frequently the most adventurous, has formally approved a law to establish permanent customs checks with the rest of the Soviet Union.

In the face of bitter protests from the minority Russian-speaking population in the republic, 28 border posts are already being equipped, and 74 border inspectors have completed a training course.

However, the Estonian parliament dropped provisions from the draft law which would have granted the border posts power to inspect passports and control migration, for fear of sparking violent demonstrations by the Russian minority.

Instead, the law allows up to 1,000 customs officers and frontier guards to inspect commercial loads from enterprises, and prevent the export of "products which are unavailable in Estonia, currencies and precious metals."

In spite of the compromise, the law and the establishment of the proper border posts – as opposed to mere road-blocks – represent the most serious move yet in the steady disintegration of the Soviet Union into its constituent republics.

Estonia borders the Russian federation and its fellow Baltic republic of Latvia, which is planning to erect comparable barriers to trade. Agreements have been signed with both, as well as with the city of Leningrad, allowing trade to be controlled.

On one level, both Russia, including Leningrad, and Latvia are happy enough to allow controls. Estonia unilaterally raised a string of food prices from October 15, including meat (up 2.4 times), butter and milk (up 2.7 times), flour and bread. Without controls at the border, the neighbouring regions are terrified that their shops, already half bare, will be picked clean by Estonians seeking cheap supplies.

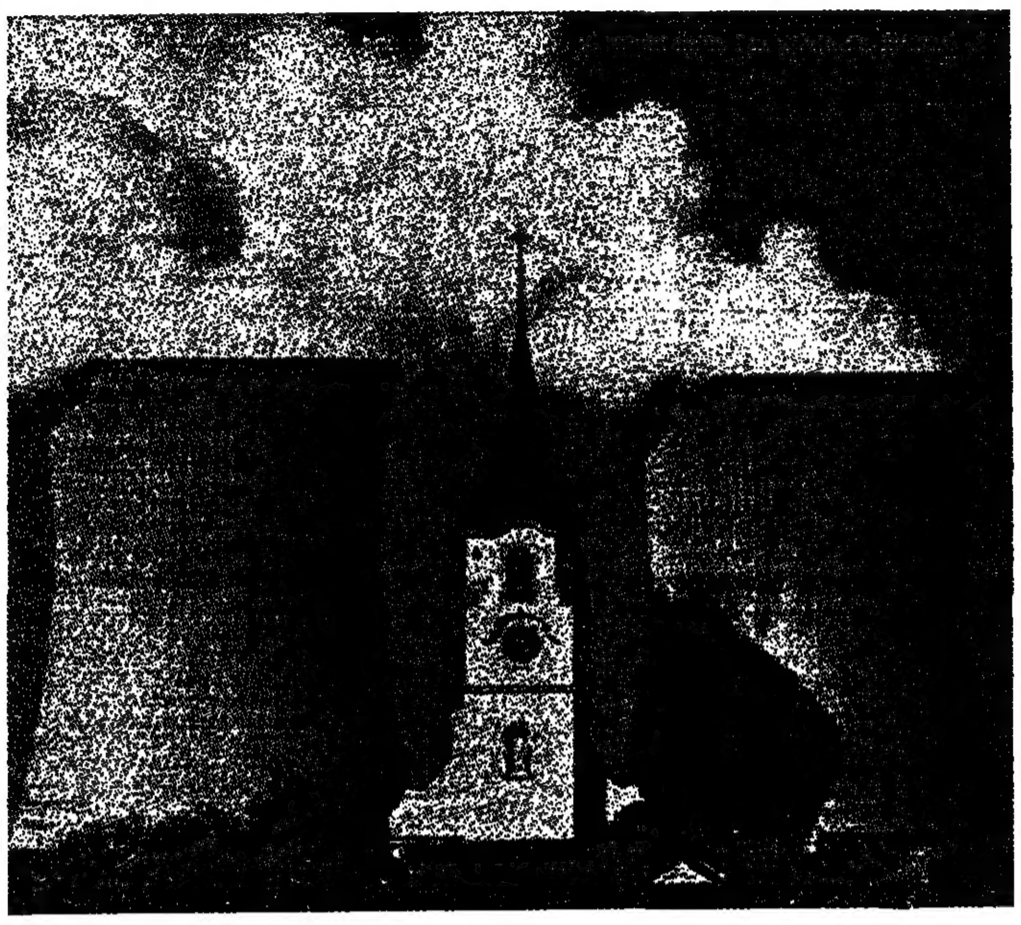
Meanwhile, progress towards the introduction of Estonia's independent currency, the crown, has been hit by a shortage of hard currency to pay an unidentified western printer for its printing, according to the Baltic News Service in Moscow.

Meanwhile, in Moscow, the Russian parliament was continuing its own rebellion against the central government. Deputies began the first reading of a draft law requiring all union legislation, including decrees by President Mikhail Gorbachev, to be ratified by the parliament before becoming law in the federation.

The law has already been described by Dr Leonid Abalkin, the deputy prime minister, as "the way towards chaos and disintegration of the country."

● The Soviet parliament voted yesterday to back Revolution Day celebrations in Moscow, setting the national government at odds with city officials who have called for the suspension of festivities, Reuter reports from Moscow.

By 312 votes to nine, parliament called on the government to step in and organise the November 7 holiday.



The church spire of the northern Bavarian village of Heidenfeld is dwarfed by the cooling towers of the Grafenrheinfeld nuclear power station, one of the world's biggest, condemned by opponents as the devil's creation. Since Chernobyl, German nuclear industry has stagnated, facing opposition from a third of the population. Unification has added to the negative view of nuclear power, with the closure of Soviet-designed reactors at Greifswald and their likely replacement with conventional plants.

Privatisation could help meet the bill for German unification

By Andrew Fisher in Frankfurt

WILL HIGHER taxes be needed to pay for the rising cost of German unity? The Bonn government hopes they can be avoided, but this is by no means certain. Germany's five leading economic institutes this week came out against tax increases, saying that savings could be made on subsidies and defence spending.

But taxes need not be the only issue. On October 3, the day the two Germanys became one, Mr Helmut Schlesinger, deputy president of the Bundesbank, threw a new proposal into the ring – privatisation. Mr Helmut Haussmann, the economics minister, has also given the idea his support.

In a speech on unity day, Mr Schlesinger devoted a large section to the idea of selling off public assets. He called for "more imagination" in public financing and the readiness to question established policies in the state-run sector. Tax increases should not be seen as the only or the quickest solution, he said, though he did not rule these out.

Later, Mr Schlesinger said that while the book value of federal assets was around DM10bn (£3.3bn), the actual sales value would be "several times higher." He did not specify which companies might come under the hammer.

But analysts note that Lufthansa, the airline of which the state owns 52 per cent, would be an obvious candidate; so would Telekom, the national telecommunications concern. Mr Haussmann mentioned both Lufthansa and the Bundesbahn (west German railways) in his comments on privatisation.

Mr Schlesinger also pointed out that the west German states (Länder) have considerable holdings, some of which they should consider selling, though their total value is impossible to assess. Lower Saxony, for instance, owns 20 per cent of Volkswagen, while state and local authorities own large stakes in energy utilities like Bayernwerk and RWE.

Mr Schlesinger wants people to be aware of just what German unity means in terms of cost. "The reason I made these proposals is that I believe the public has not yet properly understood the extent to which public indebtedness has increased as a result of the treaty on German unity."

The latest estimates by the Bundesbank put this year's net borrowing requirements at around DM100bn; next year's will be higher.

"To a certain extent, this is a new situation for Germany." He wants politicians to try to curb the rise in debt as vigorously as possible. "We never had a real debt problem before." Until the east German economy recovers east Germany will generate few tax revenues of its own.

Even if a new privatisation phase does happen, this will hardly solve the whole problem. State assets cannot be sold at once and some economists doubt that the proceeds would make much more than a dent in indebtedness.

But Mr Schlesinger wants the federal and state governments at least to consider alternative means of financing. The states also have a considerable spread of stakes in regional and savings banks. These could be regarded as possibilities for privatisation, if only partial. Certain types of subsidised interest loans, such as public housing finance, could also be sold to investors.

Since 1983, privatisation has raised around DM10bn. A further round would help introduce flexibility into public finances at a time of high unification costs, Mr Schlesinger said. At the end of last year, total financial assets of all west German public bodies, including shareholdings, totalled some DM370bn. "Much of this can be privatised – not at once, of course."

Paris bank executives face insider charges

By George Graham in Paris

THE case against two senior managers of Société Générale de Fonderie (SGF), a defunct building company, and three senior executives of Paribas, the merchant bank, opens in the Paris commercial court today.

The SGF directors are accused of misleading investors in 1986 by forecasting a slight loss for 1985, one month before revealing a net loss of FFr104m – an announcement which caused SGF's shares to drop 40 per cent in three days.

Alongside these charges of false information, the Paribas executives, Mr François Morin, vice-chairman of Paribas's supervisory board, Mr Gilles Cosson, managing director, and Mr Jean-François Reignier, deputy managing director, are also charged with insider trading for selling part of the stake held by their company, at the time state-owned, before the announcement.

The Commission des Opérations de Bourse (COB), France's stock market watchdog, concluded at the time that Paribas had sold ahead of the announcement of SGF's losses.

Paribas's lawyers retort that it sold as soon as it knew that the attribution of double voting rights to some of its shares would take its stake in SGF over 50 per cent, and thus lead to a de facto nationalisation.

Underlying these charges, however, some observers have been tempted to see the case as putting on trial the French government's industrial intervention policy in the early 1980s.

SGF remained, until it was slowly allowed to expire, one of the perennial lame ducks of French industry, kept afloat by its principal shareholder, Paribas.

"In the normal order of things, SGF should have filed for bankruptcy in 1981, but with 13,000 jobs in question and with Paribas on the verge of nationalisation, there could be no question of letting it go under," commented one Paris banker.

Czech PM comes under mounting pressure to resign

By Judy Dempsey, East European Correspondent

CZECHOSLOVAKIA'S prime minister, Mr Marian Calfa, is coming under increasing pressure to resign, amid a widening rift between President Vaclav Havel and Mr Vaclav Klaus, the finance minister.

Mr Klaus, who favours a rapid road to the market economy, has frequently criticised the slow pace of change by the presidency as well as the fact that the old communist bureaucracy remains largely intact.

Mr Havel, for his part, is concerned that radical reforms will lead to high unemployment.

The pressure on Mr Calfa, a former communist who is supported by Mr Havel, follows Mr Klaus's election last week as president of Civic Forum, the movement which toppled the communists last November.

This puts Mr Klause in a strong position to marginalise the left wing of the movement, and push forward radical economic reforms which Mr Calfa has been reluctant to support.

Civic Forum has lost popularity in recent weeks, largely because expectations about change have not been met, and it faces a severe test in next month's local government elections.

If Mr Klaus can swing public opinion behind the Forum, he may use his political skills to succeed Mr Calfa.

If this were to happen, the differences between he and Mr Havel about the government's ideological direction would deepen.

Were Mr Klaus to become prime minister, Mr Havel's ministers and close friends who formed Charter 77, the dissident human rights movement, would be marginalised; these include are Mr Jiri Dienstbier, the foreign minister, and Mr Vaclav Vales, the minister for economic reform.

Mr Havel is being boxed in by Mr Klaus and by a group of Civic Forum supporters in parliament who have formed a pressure group, the Club of the Democratic Right.

Meanwhile, Mr Havel is attempting to prevail upon Mr Vladimir Meciar, the prime minister of Slovakia, to replace Mr Calfa in the event of the latter's resignation.

However, Czechs are lukewarm towards the idea of a Slovak heading the federal government: an indication of the strained relations between the Czech Lands and Slovakia.

To complicate matters, divisions in the Slovak government are deepening.

Mr Meciar has threatened to resign altogether if Mr Anton Andras, Slovakia's interior minister, remains in office. Mr Andras is a senior member of Public Against Violence which holds 48 of the 150 seats in the Slovak National Council, or parliament.

In the local government elections, PAV is likely to lose heavily to the Slovak National Party which won 22 seats, or 13.94 per cent of the vote, in the federal elections.

But its strident demands for autonomy from Prague now make it the most popular party in Slovakia and a destabilising element in the Czechoslovak Federation.

Swedes warned of hard times

By Robert Taylor in Stockholm

THE SWEDISH government's austerity package due to be announced later this week to deal with the country's deteriorating economy will arouse widespread discontent, Mr Allan Larsson, the finance minister, warned yesterday.

Recalling the unpopularity aroused by the sharp rise in Sweden's oil prices in late August after the Iraqi invasion of Kuwait, he said he feared the forthcoming emergency programme of public spending cuts would provoke a storm of protest.

Mr Larsson said the country's parliamentary system faced a severe test because his package would impose "great demands" on Sweden's politicians. He added that political leaders "must now show that they can take responsibility and stand out against hostile public opinion".

The package is expected to be announced later in the week but Mr Larsson's tough warning suggests that it will hit cherished welfare programmes and produce an increase in unemployment.

The ruling minority Social Democratic government has to win wide support in parliament to carry through the measures and this is going to prove difficult with only 11 months before the next general election.

The opposition parties remain confused and divided. Mr Carl Bildt, leader of the Moderates, said that his party would not support what the government proposed. Mr Bengt Westerberg, the Liberal leader promised his party would back any proposal to restructure Sweden's expensive and much-abused sickness insurance system.

Berlusconi is obliged to scale down pay-TV plans

By Haig Simonian in Milan

MR Silvio Berlusconi, the television and entertainment magnate, has been obliged to scale down his plans to establish the country's first commercial pay-TV network, in the first restructuring of his media interests since the approval of Italy's new law limiting broadcasting and media ownership.

Under the new scheme launched yesterday, Mr Berlusconi's Fininvest family company will take only 10 per cent of Telepiu (Tele+), the three-channel pay-TV network which could start broadcasting by next August, subject to official approval.

The remainder of the company's opening L10bn ($8.8m) capital will be divided between a variety of private-sector entrepreneurs close to Mr Berlusconi, in blocks of 10 per cent each.

The group could subsequently be open to participation by other leading foreign media concerns.

According to Fininvest's calculations, setting up the network could cost up to L1,000bn, leaving ample room for foreign shareholders once its capital requirements start to rise.

Fininvest has been prevented from taking full ownership following legislation passed in August which limits its TV interests to its current three channels.

According to Mr Berlusconi, the new rules have blocked entrepreneurship and are unfair as pay-TV is substantially different from other forms of broadcasting.

Because of the legislation, Fininvest has been obliged to assign the frequencies it had earmarked for its pay-TV venture to Tele+, for which it will also provide a variety of services on contract.

The new network is likely to follow Fininvest's original plan for three separate channels providing films, sport and news.

Although the scale of charges has yet to be announced, Mr Berlusconi said that Fininvest had been planning a monthly subscription of L25,000-L30,000.

The network, which expects to employ 1,200, will need 1.4m subscribers to break even. Based on production of 30,000 decoders a month, it hopes to have 360,000 subscribers in its first year.

The creation of Tele+ could have repercussions for Mr Berlusconi's other TV interests. Although exclusive coverage of big sports events is likely to remain reserved for his main channels, some sports programming will be shifted to Tele+.

Mr Berlusconi also disputed the 3-4 per cent viewing quota claimed by Telemontecarlo (TMC), a smaller private-sector commercial station, in which Mr Raul Gardini's Ferruzzi group last week bought a 40 per cent stake.

According to Mr Berlusconi, TMC accounted for less than 1 per cent of the total Italian audience.

Brussels report backs broader EC powers and majority votes

By David Buchan in Brussels

THE FORTHCOMING negotiations on a new European Community treaty are "a golden opportunity" to broaden the EC's powers into areas like defence and to speed its decisions by basing them more on majority votes.

This is the thrust of a report released by the European Commission yesterday on how it views the inter-governmental conference on political union, which is due to start formally in Rome on December 14.

The report believes the current balance of power should be maintained between the community's three main bodies: the parliament should have its right to amend EC legislation extended, and the council of ministers should have wider decision-making powers in foreign and security policy, but the commission's near-monopoly on initiating policies had to be "safeguarded".

Speaking in Strasbourg yesterday, Mr Jacques Delors, the commission president, told members of the parliament that a fundamental decision about federalism was approaching. "If one thinks, like the UK, that only the nation state counts, then one should say so and wind up the commission and the parliament," he said.

De Michelis: 'broad agreement'

But he also warned MEPs that if they got their way and won for the parliament some or all of the commission's policy-initiating role, "then the commission would simply become the governments' executive and precious little would remain of the community's federalist spirit".

After chairing a meeting in Strasbourg of fellow ministers and parliamentary leaders, Mr Gianni De Michelis, the Italian foreign minister, said yesterday there was broad agreement on writing in new rights for EC citizens, formal approval by MEPs of commission members nominated by governments, an extension of majority voting in the council, and of amending rights for parliament.

But most governments were not prepared to give parliament the same rights they had in making EC legislation, or any real say in foreign policy.

The commission paper echoes the suggestion by the Italian presidency that Article 223, which for more than 30 years has sheltered European defence procurement from EC rules on competition and open bidding, be struck out of the Treaty of Rome.

It also endorses another Italian idea that the EC treaty might take over the mutual defence commitment of the *Western European Union* (WEU). This commitment binds the nine of the 12 EC states that belonging to WEU to come to each other's aid if any were attacked.

Italian president affirms unity on Gulf

By Robert Mauthner, Diplomatic Correspondent

PRESIDENT Francesco Cossiga, the Italian president, yesterday underlined the united stand of Britain and Italy in the face of "the arrogant defiance" of international law represented by Iraq's invasion of Kuwait.

The Italian president, who had earlier arrived in London for a three-day state visit, said in a toast at a banquet given in his honour by the Queen at Buckingham Palace last night, that both Britain and Italy were "resolved not to give way to such outrages".

They would nevertheless deploy all their efforts within the United Nations to search for a political solution to the crisis without resorting to force.

The president will meet the British prime minister Mrs Margaret Thatcher today for talks expected to range from the Gulf crisis to the future of the European Community. Mrs Thatcher's opposition to the Delors plan for closer monetary union is unlikely to deter Mr Cossiga from expressing Italy's support for it.

Mr Cossiga is said to be a personal friend of Mrs Thatcher's. Both leaders can therefore be expected to speak frankly to each other in spite of the protocol which would ordinarily prevent a visiting head of state from bringing up controversial subjects in talks with his hosts.

At Buckingham Palace last night, however, President Cossiga was noticeably diplomatic in broaching the subject of Britain's attitude to further European integration.

He expressed confidence that "the great British tradition of democracy and down-to-earth pragmatism, coupled with the generous idealism that has so often fuelled the hopes of peoples throughout the continent of Europe, will continue to make a major contribution to the progress of the European Community."

● Fresh diplomatic efforts to persuade Italy to re-open its border with Austria to lorry traffic will be made next week when EC transport ministers meet, *David Buchan* reports from Brussels.

European Commission officials said yesterday they hoped to broker an end to the blockade that started on October 16.

Door of reform creaks open in Europe's last communist bastion

By Laura Silber in Tirana

THREE months after the exodus from Albania, several embassies remain closed in Tirana for fear of another flood of refugees.

Many senior western diplomats, still consulting in their capitals following the stampede by refugees last July, will this week miss the biggest international event in the country's post-war history.

Albania, cautiously prising open the door to the outside world, is hosting a summit of Balkan foreign ministers.

Soldiers, policemen and the Sigurimi, the Albanian secret police, will be keeping a close eye on the event. They patrol Skenderbeu Street, Tirana's diplomatic quarter. The authorities are taking no risk. Four metre walls, topped with broken glass surround the embassies.

As a safeguard, consular sections of the embassies have been relocated away from the embassies. But still the crowds come for visas. As many as 20,000 Albanians have left the country legally since July. The government's cautious mix of Marxism and reform is not enough of an incentive to stay at home.

Amid the security and the rush for visas, the authorities are introducing reforms which, by Albanian standards, are radical. For under President Ramiz Alia, Europe's last bastion of communism is opening up.

He promised reforms at the 10th plenum of the ruling Albanian Party of Labour in May. These included an overhaul of the country's severe legal and penal systems.

Since then, Albania has requested membership of the CSCE, the Conference on Security and Co-operation in Europe. Acceptance by the CSCE may be influenced by an announcement in yesterday's *Zeri I Populit*, the party daily, which published the draft of a new election law.

For the first time, the law will give citizens a choice of multiple and independent candidates from organisations tolerated by the authorities. But it falls short of allowing independent political parties.

The cautious approach towards creating more flexibility in the system is being spearheaded by Mr Alia, the hand-picked successor to the late Mr Enver Hoxha who founded the Albanian (communist) Party of Labour in 1946.

Mr Alia insists that Albania will chart its own reform course and integration into Europe. But pressure both from within and outside is likely to speed the tempo of change.

The greatest pressure is economic. After more than 12 years of total self-reliance, Albania, which broke off relations with China in 1978 and the Soviet Union in 1961, has paid a high price for decades of isolation. The average salary is about 475 lek ($47). Young people, no longer content at watching events in Europe unfold on foreign television, seek more information by asking foreigners about life in the west. As they do, they still have to keep an eye on the ubiquitous Sigurimi.

Albania offered voters secret ballots and a choice of candidates in a draft election law published yesterday, Reuter reports. But the draft law stops short of letting political parties other than the ruling Workers' (Communist) Party stand in elections. The reforms mark a step forward for Albania, which is slowly coming out of decades of self-imposed isolation, but fall well short of those introduced in other East European states. The official Albanian news agency ATA said the draft, to be sent to parliament on November 12, was published in newspapers.

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WORLD TRADE NEWS

Congress urged to suspend judgment on trade talks

By Nancy Dunne in Washington

TWO FORMER US trade representatives who lead a broad private-sector coalition in support of the Uruguay Round have written to every member of Congress asking that they withold judgment of the international trade talks until the negotiations have concluded.

Alarmed by growing opposition to the Round, sparked by US farm trade proposals, Mr William Brock and Mr Robert Strauss, trade representatives under Presidents Carter and Reagan, asked members "not to succumb to pessimism until we see what the negotiators can bring home".

Thirty-four senators have now signed on in support of a resolution which would withdraw the "fast-track" agreement, granted in 1988, not to amend whatever deal is produced by the Round. The resolution was to be introduced yesterday by Senator Kent Conrad, a North Dakota Democrat and "pre-filed" for a vote in the 1991 Congressional session.

Passage of the resolution would allow the Senate to rewrite some of the hard-fought compromises which could then destroy the Round.

Mr Brock and Mr Strauss are co-chairmen of the MTN Coalition, a group representing 14,000 business and consumer organisations, formed to support the negotiations. It does not take positions on individual issues; its members do not agree on many of the details, but are responding to the new threat to the Round with letters and telegrams to Capitol Hill.

"We are under no illusions about the present state of the negotiations," the co-chairmen say in their letters. "It is sometimes difficult to envision the Europeans giving up agricultural export subsidies, or the LDCs opening their markets, or what the US has to offer in return. But we see nothing to be gained by rushing to judgment or throwing in the towel prematurely, because there is still time for major changes."

The two stressed positive developments in the negotiations. They said at least 10 developing countries have agreed to give up special treatment granted them in the past and "for the first time really join the Gatt".

There is much to be gained "from plain, old-fashioned tariff cuts on our exports" as well.

They acknowledged that the Round will be "no panacea" for the problems of the world economy, and that there would still be need for "tough bilateral trade remedies to open markets".

Developing world mends textile split

TEXTILE PRODUCERS in the developing world have resolved their differences and agreed a joint approach to the Uruguay Round negotiations, Canute James reports from Kingston. They will seek concessions for small producers and continuation of a Caribbean programme for assembling and re-exporting garments to the US.

The pact has ended disagreements within the International Textile and Clothing Bureau (ITCB), an organisation of Third World producers. The larger members, including China, India and Bangladesh, which are high-volume, low-cost producers, had previously argued for all preferential treatment to be removed for other developing countries, such as those in the Caribbean which are smaller producers.

Mr Peter King, chairman of the Caribbean and Central American Textile Council, said the smaller members had threatened to leave the ITCB unless the larger producers took account of "our special situation".

"There had to be concessions on both sides," Mr King said. "Larger producers wanted new accords under Gatt to be implemented within one year; we wanted them implemented after 12 years. We agreed on six-and-a-half years."

US cigarette export habit hard to break

Test case in Thailand ends a long-standing import ban, writes Peter Ungphakorn

THE THAI government announced this month that it would lift its import ban on cigarettes in order to conform with the General Agreement on Tariffs and Trade.

But it also decided to use the Gatt dispute settlement panel's report to resist further American action under section 301 of US trade law, and to step up its own anti-smoking campaign.

Until the Gatt panel reached its conclusion on September 21, the dispute was seen as a test of whether cigarettes could be given special consideration under Gatt because of the health risk caused by smoking.

It has now become a test of whether Washington will accept additional findings by the panel that Thai bans on advertising, point of sale promotion and sponsorship do not violate Gatt; or whether the Americans will carry out their threat of unilateral trade sanctions under section 301 if Thailand refuses to relax these rules.

Thailand believes the Americans are being asked to show a commitment to a multilateral trade regime over unilateralism.

The Thai government has cited Gatt in order to legitimise lifting the import ban and to weaken opposition from the cigarette manufacturing unions. It is also proposing a new health tax on all cigarettes to finance an anti-smoking campaign.

The Commission of the European Community, which formally expressed an interest on behalf of European tobacco companies and was allowed to attend the panel's hearings, is also watching the developments.

Last year, US companies petitioned the US Trade Representative under section 301 to impose sanctions against Thailand for banning cigarette imports.

The representative decided in December to take the case to Gatt, an unprecedented action. In previous cigarette disputes with Japan, South Korea and Taiwan, the Americans had successfully used the threat of section 301 sanctions alone, without recourse to Gatt's internationally recognised rules.

The action against Thailand, however, was taken at a sensitive stage of the Uruguay Round of Gatt talks when US commitment to multilateralism was being questioned by Thailand and other Gatt members.

The Americans also continued a separate line of attack outside Gatt. They argued that although Thailand's advertising and promotion ban applied to all cigarettes and therefore did not discriminate, it amounted to unfair trade practice because American cigarettes were less well known on the Thai market than the Thai brands and therefore suffered a competitive disadvantage.

The Americans will want written confirmation of the new Thai policies and an opportunity to examine whether any of the measures, such as packaging regulations and health warning in Thai could be construed as discriminatory.

Although the Thais have lost their case over the import ban, they say they have achieved a more realistic objective: a Gatt finding that the cigarette advertising and promotion ban was not breaking international commitments. Armed with that conclusion, they are now ready to face the Americans.

From the start, Thai trade officials admitted privately they did not believe they could successfully defend the import ban. But they fought hard alongside health officials who argued that imported cigarettes were different products from the locally made version and that in any case cigarettes are not ordinary commodities.

"Cigarettes are the only consumer goods that kill when used as intended," is a favourite slogan of Dr Hatai Chitanondh, the leading health ministry official in the Thai team working on the dispute.

The panel concluded that his argument, however true it might be, was not a valid defence under Gatt regulations. But it did overrule US objections that it had no mandate to comment on the promotion ban.

The panel said the import ban might have been acceptable under Gatt if it had been "necessary" in order to protect human life. Since other means, including non-discriminatory bans on promotion, were available and consistent with Gatt, the import ban was not "necessary" and therefore violated Gatt, the panel concluded. Outlawing the import ban and permitting the promotion ban therefore became inseparable issues.

But the dispute is over much more than meets the eye.

For a start, US cigarettes are widely and openly available in Thailand on the black market and foreign cigarette brand names do appear in advertisements in imported magazines and in television programmes of foreign sports events. Cigarettes manufactured by the state-owned Thailand Tobacco Monopoly are never advertised anywhere.

On the Thai side, the defence in Gatt has been based on the health hazard from smoking. But the import ban could be interpreted as outright protectionism.

Nonetheless, the Thai health campaigners were eager to grasp the opportunity because the US action injected new energy into their campaign. If cancer alone was an ineffective message, indignation over American "bullying" would rally more support. They have successfully obtained stronger government action.

The case attracted international attention. Health officials and activists from the US and elsewhere pledged their support at international conferences for a campaign against what they considered to be unethical attempts by the trade branch of the US government to assist US cigarette companies offset declining sales at home by exporting more to the Third World.

Dunkel puts pressure on EC over deadline

MR Arthur Dunkel, the director general of the General Agreement on Tariffs and Trade, yesterday told a German audience that pressures for reform "are growing from all sides and will not be held back by fine-tuning current policies or by tinkering at the margins of the problem", AP reports from Geneva.

He urged "a comprehensive reform programme, extended over a reasonable period of time", including cuts in border restrictions like tariffs that raise consumer prices, and domestic supports and export subsidies, which distort competition.

His speech seemed designed to put pressure on the EC, the only major group failing to meet an October 15 deadline for offering farm support cuts in Gatt, and Germany, which is in the forefront of opposition to concessions.

European ministers have failed several times to agree on a proposed common position, which still falls short of reforms demanded by the United States and other major farm exporters.

The rift over agriculture is threatening to derail the wide-ranging four-year-old talks. Ministers from some 100 nations are scheduled to sign a package deal cutting trade barriers in 15 areas in December.

"We cannot afford to miss the opportunity to put the market back where it belongs in agricultural trade," Mr Dunkel said. "And five weeks away from the end we are nowhere near this goal."

He appealed to newly unified Germany to shoulder "its responsibilities", saying its economic power depended on an open world trade system. Mr Dunkel spoke at a gathering of the Uebersee-Club in Hamburg.

His speech was distributed in Geneva, where Gatt has its headquarters.

US to investigate Japanese car plants

JAPANESE car makers with US plants are being investigated by the US government to determine whether they give more business to suppliers with Japanese ties, company spokesmen said on Monday, AP reports from Nashville.

The Federal Trade Commission is investigating Nissan Motor Manufacturing USA, of Smyrna, Tennessee, Toyota Manufacturing of Georgetown, Kentucky, and Honda of America, in Marysville, Ohio.

Two congressional committees asked the FTC to investigate whether Japanese suppliers are getting preferential treatment over US competitors.

"From past and present practice at the FTC, you may be assured that there is no exemption from the antitrust laws for foreign companies whose conduct harms, or threatens to harm, markets and consumers in the US," FTC Chairman Ms Janet Steiger testified before the House Judiciary Committee on May 3, this year.

"A number of recent trade and press reports indicated that the government of Japan intends to make keiretsu more open and competitive.

"We believe we will make our best contribution by focusing on the economic implications of the keiretsu system for the auto manufacturing and auto parts industries in the United States," she said.

Keiretsu is a Japanese term for doing business only with each other or companies you have a stake in.

Toyota of Japan, the parent company of the US car maker, has ownership in at least "a couple" of its parts suppliers, said a Toyota spokeswoman, Ms Barbara McDaniel.

The investigators asked Nissan for the names of its 151 supplier companies, copies of purchasing contracts and other supplier information, said Ms Martha Trammell, assistant legal counsel. Nissan owns none of those companies, but does hold minority interest in some of them, Ms Trammell said.

Honda does not participate in keiretsu and has never been organised in that way, said Mr Roger Lambert, a company spokesman.

Venezuela and Yugoslavia in alumina joint venture

By Joseph Mann in Caracas

VENEZUELA and Yugoslavia have signed a letter of intent covering the construction of a new complex for producing alumina and primary aluminium in Venezuela.

The agreement calls for establishing a joint venture company to build and operate a 1m-tonnes-a-year alumina plant and a 300,000 tonnes-a-year aluminium smelter in Bolivar State, in south-east Venezuela.

CVG, a heavy-industry complex owned by the Venezuelan government, will hold 20 per cent equity in the company, to be called Alyuven, while Makmetal Group of Yugoslavia will hold 80 per cent.

Makmetal has agreed to secure financing for the new project, while CVG, which owns and operates steel, aluminium, mining and hydroelectric power companies, will provide support in obtaining land, electric power and supplies of raw materials.

● Shell Chemical International has signed an agreement with the Venezuelan government's petrochemical producer, Pequiven, under which the latter will supply 50,000 metric tons a year of ethylene and 12,000 tonnes a year of propylene, starting October 1991.

Deliveries are scheduled to begin after Pequiven puts into operation a new olefins plant in the western state of Zulia. The contract will be for a minimum of three years. Prices for the deal, the first to be signed for the new olefins facility, will not be published.

De Klerk tells Dutch of decrease in sanctions

By Ronald van de Krol in The Hague

SOUTH African President F.W. De Klerk said yesterday that his country was managing to step up its exports to countries which once shunned its products.

Markets which used to be difficult for South African exporters to penetrate have begun opening up, as a result of the white government's move to open talks with the African National Congress. "The de facto situation is that sanctions are crumbling," Mr de Klerk said on the first day of a two-day state visit to the Netherlands. He gave no details of South Africa's recent export successes.

Mr de Klerk, who held talks with the Dutch Prime Minister, Mr Ruud Lubbers and the foreign minister, Mr Hans van den Broek, said he had not come to the Netherlands with the specific aim of getting economic sanctions lifted. His visit marks the first time a white South African leader has been invited to the Netherlands in more than 40 years.

The visit is a diplomatic breakthrough for Mr de Klerk, who was not allowed to include The Hague on his earlier trips to Europe this year. It is particularly important to the white Afrikaner community in South Africa, many of whom trace their ancestry back to 17th-century Dutch settlers.

■ Francis Ghilès adds: President de Klerk, before arriving in the Netherlands, made a significant stop-over in Morocco where after a 90-minute meeting with King Hassan he said his team had been "overwhelmed with friendship".

The talks between Mr Pik Botha, South Africa's foreign minister, and Mr Abdellatif Fillali, his Moroccan counterpart, might eventually lead to the first ties with an Arab state.

This "friendship" is less surprising than it may appear. Morocco bought weapons from South Africa in the early stages of the conflict over the former Spanish colony of the Western Sahara.

Mandela snubs Buthelezi in radio phone-in

Mr Nelson Mandela, deputy president of the African National Congress, angrily walked out of an Australian radio studio yesterday when an interviewer unexpectedly brought Chief Mangosuthu Buthelezi, the Zulu leader who is his chief black political rival, in to join the conversation via a telephone hook-up with South Africa, Reuter reports from Canberra.

"Was that Buthelezi? In fairness you should have told me," Mr Mandela told Mr Paul Murphy, the Australian Broadcasting Corporation interviewer.

"Mr Mandela, yes I should tell you that I have just been talking to Chief Buthelezi," said Murphy, adding: "I don't know whether you want to listen to what he has to say."

Mr Mandela, annoyed, said: "I don't. In fairness you should have told me the full picture beforehand." He then left the studio as his aides remonstrated with ABC staff.

A first round of talks between Mr Mandela, who is on a five-day tour of Australia, and Mr Buthelezi of the rival Inkatha Freedom Party, was announced in South Africa on Monday. They are aimed at ending factional violence which has killed 800 since mid-August.

Seoul to ease securities laws

SOUTH KOREA, bracing for an opening of its financial sector to foreign competition from next year, plans to ease laws on finance houses merging or changing their line of business, Reuter reports from Seoul.

Mr Chung Yung Euy, the finance minister, will present a bill next month which calls for less bureaucracy and permits tax breaks for banks, securities houses, short-term finance companies and merchant banks wanting to merge or switch to different financial services. "We basically want to tell these firms they're on their own. *In the face of foreign* competition, those who want to shape up can go right ahead," said one official from the finance ministry's bank division.

Nepal government appeases king

The government of Mr Krishna Prasad Bhattarai, Nepal's prime minister, has accepted "certain changes" proposed by King Birendra in the draft constitution, AP reports from Kathmandu. He refused to say if the concessions included the king's key demand that the monarchy share sovereignty with the people and retain emergency powers.

Singh may survive until rivals are ready for election campaign

David Housego analyses the possible consequences of the withdrawal of Hindu militants from India's ruling coalition

THE withdrawal of support from the administration of Mr V.P. Singh, the Indian prime minister, by the militant Hindu Bharatiya Janata Party (BJP) after the overnight arrest of Mr L.K. Advani, its leader, does not mean the automatic collapse of the 11-month-old government.

The prime minister, after emerging from meeting President Ramaswamy Venkataraman yesterday, said that the future of his government "will be decided on the floor of the Lok Sabha (parliament)".

Parliament is due to reassemble for the winter session in three weeks. Those close to Mr Singh were saying yesterday that a lot could happen in that time. In particular, Mr Singh is counting on the BJP eventually abstaining in a vote of confidence which would give Mr Singh a chance of survival.

Most political observers in New Delhi believe, however, that these calculations contain much wishful thinking and that Mr Singh could be toppled well before then. His image as prime minister has suffered a battering in recent months.

The Times of India began its editorial yesterday – written before the arrest of Mr Advani – with the damning statement: "In all but name the governance of the nation has come to a standstill." Though the BJP broke with the government over issues of Hindu fundamentalism and the construction of a temple at Ayodyha, its belief that Mr Singh had become an electoral liability also weighed heavily.

Troubles in Kashmir, Punjab and Assam are worse than when Mr Singh took over. The country faces explosive conflicts over caste and religion. It also faces inflationary and balance of payments problems as a result of the Gulf crisis.

Mr Singh has lost the confidence of many cabinet colleagues and party supporters. "He has gone into the crisis with no solid support," a diplomat said yesterday. Against this, his powerful television broadcast to the nation on Monday night was a reminder to his opponents that he is one of the few politicians of national stature.

He also has long-term electoral assets in the political alliance he has been creating with the the poor and lower castes through his job reservation programme. The immediate threat to Mr Singh comes from within his own Janata Dal party where 29 MPs recently demanded his resignation. Without their support Mr Singh cannot hope to maintain a majority.

Yesterday the dissidents were canvassing for the overthrow of Mr Singh who, as three of them said in a statement, had "miserably failed" to hold the party together. Their favoured candidate for successor is Mr Chandra Shekar, a former Congress party socialist, who has long had his eyes on the premiership. Another potential runner is Mr Mulayam Singh Yadav, the chief minister of Uttar Pradesh, and also on the left.

The dissidents' strong card is that Mr Rajiv Gandhi, the former prime minister and Congress leader whose party is the largest in parliament, has made clear that he would offer "constructive support" to a Janata Dal government under a different leader. Mr Gandhi's calculation is that the Janata Dal will discredit itself further if it continues in office.

Mr Gandhi has rejected the idea of his forming a minority government in the horrendous circumstances facing the country – though the president is almost bound to approach him on this. Mr Gandhi wants to return to power through fresh elections which he believes will be held in February or March.

Threatened with this revolt in his own ranks, the prime minister's response, as outlined by his associates, has been to threaten the dissidents with the dissolution of parliament. Mr Singh's supporters are adamant that he has the right to dissolve the lower house. Others believe that as the prime minister's majority is in doubt, the president could refuse.

The president, like most MPs, is against an immediate dissolution. The MPs are not ready for a costly and violent campaign – though they believe it cannot be postponed beyond March. The president also thinks that elections now could deepen divisions.

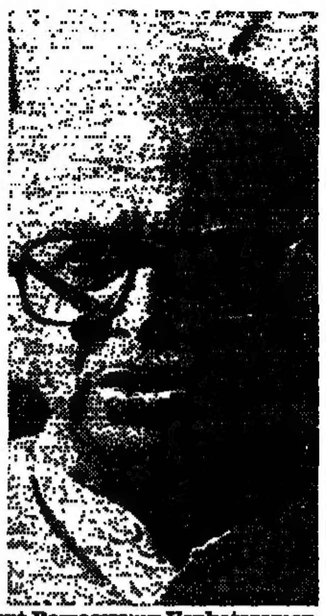
At this stage it is by no means clear whether fresh elections would produce a stable majority. Analysts were saying yesterday that the Congress party – which won 39 per cent of the vote in last November's general election – would stand to gain most from the confusion.

Congress has traditionally been associated with an image of strong government.

The main unknown is how much the BJP would benefit from the Hindu revivalist campaign that lies behind its crusade to build the temple at Ayodyha, the alleged birthplace of Ram, the Hindu god. Mr Advani's calculation is that the BJP is riding the crest of a wave that will be further swollen by his arrest. The BJP have announced a national strike for today, while Hindu fundamentalists plan to go ahead with plans to start construction of the temple on October 30.

What is clear is that India is entering a fresh period of uncertainty and that the risk of violence remains great.

"We should be looking outwards," a senior civil servant said yesterday. "But we are continually looking inwards at our own navel."



Prime Minister V.P. Singh emerges yesterday from meeting President Ramaswamy Venkataraman. Pictured on the right is Lal Krishnan Advani, BJP leader, who was arrested yesterday

Bhutto seeks the sympathy vote

Farhan Bokhari on machinations behind today's poll in Pakistan

PAKISTANIS go to the polls today to vote in an election which many thought would not take place, and which will decide the political fate of Mrs Benazir Bhutto, the ousted prime minister.

Campaigning by Ms Bhutto's Pakistan People's Party (PPP) and her rivals – the government-backed Islamic Democratic Alliance (IDA) - has intensified only during the past two weeks as Pakistanis became convinced that elections would in fact be held.

But there is still a widespread belief that the army-backed government will prevent Ms Bhutto from returning to power.

Although ministers have said repeatedly that the election will be free and fair, Ms Bhutto cast doubts when she said: "You don't throw out an elected government just to let it back three months later," referring to her government's dismissal in August amid allegations of corruption.

President Ghulam Ishaq Khan of Pakistan criticised Ms Benazir Bhutto, the prime minister he sacked, on the eve of today's elections, saying she had negated democratic principles, Reuter reports from Islamabad. The 75-year-old president, who fired Ms Bhutto on August 6, said the elections would be "completely free, fair and impartial". He said his dismissal of the 20-month government, was "in accord with the *thinking...of* millions and millions of voiceless people".

Yesterday the authorities filed another corruption charge against Ms Bhutto and extended her husband's detention on charges of kidnapping and corruption. The latest charge was the seventh filed against Ms Bhutto and concerned alleged illegal appointments to government jobs. The series of allegations in specially established courts seek her disqualification from office because of alleged corruption.

In one case, she was accused of using her influence to sell government land at subsidised rates for a hotel in Islamabad to a company in which her husband and a cousin were involved. If found guilty of "misconduct in public office", she may be barred from office for seven years.

The government's action has been widely seen as one sided, as none of her opponents who served in provincial governments while she was in power have been subjected to the same standards of scrutiny.

In recent days, many political observers have spoken of a surge in Ms Bhutto's popularity, largely due to a "sympathy" vote from Pakistanis who believe she is being victimised. The effect of this is difficult of predict, but it may tilt the balance in her favour, although her supporters fear that elections will be rigged in some constituencies despite the presence of three separate teams of international election observers.

Western diplomats and political observers in Islamabad believe that Ms Bhutto's party is likely to win between 83 and 95 seats in the 217 seat parliament (20 additional seats reserved for women are not being contested). The expectation is that her IDA opponents will have to cobble together a coalition with regional parties and independent candidates to have enough seats to form the government.

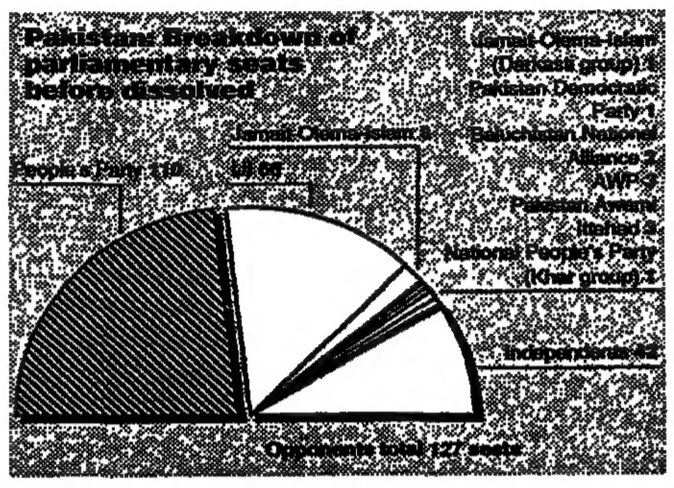
Late campaigning has centred around the issue of foreign influence in the election. The IDA has accused Ms Bhutto of seeking foreign support after alleging that a number of US senators were influenced by her in trying to stop US aid to Pakistan.

Large newspaper advertisements have accused Ms Bhutto of ties with the pro-Israel Jewish lobby in the US. The charge has been rejected by Ms Bhutto as a propaganda ploy to discredit her party.

The key to the formation of a new government lies in with the politically influential Army. A recent statement by General Mirza Aslam Beg, the army chief, attracted much attention when he said that those seeking political support from outside Pakistan to fulfill their political ambitions are certain to be frustrated.

General Beg's statement came after the US decision to halt aid to Pakistan, ostensibly in response to concerns over Pakistan's nuclear programme. But it has been widely alleged by the IDA to be a way to influence the Pakistani election.

In recent weeks, Ms Bhutto has carefully avoided criticising the army, in contrast to remarks shortly after her dismissal suggesting that some elements in the military may have had a hand in her removal.



Sri Lanka seeks World Bank aid

By Mervyn De Silva in Colombo

SRI LANKA has requested $870m (£441.6m) aid for 1991 from the World Bank-sponsored Sri Lanka Consortium which will have its annual meeting in Paris this week.

Mr D.B. Wijetunge, the prime minister who is also finance minister, is due to address the donors tomorrow. Sri Lanka received $784m last year as budgetary support and project and commodity aid.

The estimates were revised, the central bank said, to "absorb the triple shocks of the Gulf crisis". Besides the rise in oil prices, Sri Lanka lost the Iraqi tea market and dollar remittances from nearly 100,000 migrant workers, mainly in Kuwait.

Of the SRs139bn voted as expenditure, SRs44.8bn would go to service debts. Half this sum would cover interest payments on short-term foreign loans. Another large item of expenditure is defence, for which SRs11.7bn has been voted.

● THE MIDDLE EAST

Palestinians wound four more Jews

By Hugh Carnegy in Jerusalem

PALESTINIANS wounded four Jews in attacks yesterday and a Moslem fundamentalist group vowed further revenge for the Israeli police killing of 20 Arabs earlier this month.

In continuing Israeli-Palestinian violence, two women soldiers were stabbed on a road in northern Israel and a hammer-wielding Arab beat two men unconscious in the southern city of Ashkelon.

It was a third consecutive day of Arab attacks, apparently precipitated by the police killing of Palestinian demonstrators on East Jerusalem's Temple Mount on October 8.

Three Jews were stabbed to death in Jerusalem on Sunday and three were wounded in separate attacks on Monday. The Palestinian who stabbed the women soldiers yesterday was reportedly close to death after being taken into custody unconscious.

Jerusalem remained out of bounds yesterday to Palestinians from the occupied West Bank and Gaza Strip, but thousands still crossed into Israel to work. Mr Yitzhak Shamir, the prime minister, said security was being stepped up. Hamas, an Islamic fundamentalist group, in a clandestine leaflet praised the attacks and called for more.

■ A senior Palestine Liberation Organisation official said yesterday that the spate of stabbings of Jews by Arabs was the start of a new spiral of violence, Reuter adds from Amman. "The war of daggers against the settlers and the occupiers is only the beginning in a battle launched by the entire Palestinian people to protect their city and existence," said Yassir Abed Rabbo, of the PLO.

■ An Israeli court has lifted a ban on leaving the country imposed last week on Mr Ephraim Margulies, the former chairman of British Sugar, while a claim was brought against him alleging liability for debts incurred by a company which developed Jewish settlements in the West Bank.

The restriction was lifted on condition that Mr Margulies undertook to return to Israel.

UK must look to Syria for hostage release, says Keenan

By Jimmy Burns

THE RELEASE of British hostages held in Beirut will be made difficult as long as Britain holds back from taking the initiative in improving relations with Syria, Mr Brian Keenan, the most recently released hostage, indicated yesterday.

"I don't think the opening of the British Embassy in Tehran is going to open the door for the hostages remaining... we should be seeking ways of dialogue with the Syrians. I think this is imperative," Mr Keenan said.

His comments, made following a meeting with Mr William Waldegrave, the foreign office minister, appeared to dampen speculation that the recent restoration of diplomatic links between Britain and Iran was helping the way for an imminent release of the British hostages.

On Monday Britain blocked EC moves to lift sanctions against Syria after Mr Douglas Hurd, Britain's foreign secretary, said that efforts at improving UK-Syrian relations had not been as "fast or clear" as he would wish.

Sanctions against Damascus were imposed four years ago when the Syrians were linked to an abortive attempt to blow up an Israeli airliner at Heathrow airport. Britain broke off diplomatic relations on October 31 1986 on the basis that Syria was supporting terrorism.

The UK Foreign Office last night reiterated its cautious approach on the Beirut hostages and said it had "no firm evidence that they are coming out soon."

Earlier this month, two of Beirut's leading newspapers predicted that Mr Terry Waite, the Archbishop of Canterbury's envoy who disappeared in Beirut in January 1987, was about to be freed.

Lara Marlowe adds from Beirut: Britain's refusal to restore diplomatic ties with Damascus and its alleged opposition to lifting EC trade sanctions is perceived here as a wilful insult to Damascus.

Concern as Saudis tone down war of words

Iraq may misinterpret conciliatory remarks as a sign of weakness, **Victor Mallet** writes

WITH EVERY day that passes, Saudi Arabia's allies are better equipped to launch an offensive against Iraqi forces in Kuwait. With every day that passes, Saudi Arabia itself seems more anxious to avoid such a war.

This week King Fahd and his brother Prince Sultan, the defence minister, have both urged Iraq to withdraw and avert bloodshed. Their appeals were remarkably conciliatory, in contrast to the vitriolic Saudi criticism of President Saddam Hussein, the Iraqi leader, immediately after the Iraqi invasion of Kuwait in August.

King Fahd urged the Iraqi leader to see reason and said he would not lose face if he withdrew. Prince Sultan, to the chagrin of the Kuwaiti government-in-exile, suggested that Kuwait should consider making territorial concessions to Iraq after an Iraqi withdrawal, although he later said his remarks had been "misinterpreted".

Saudi officials and western diplomats publicly reject the idea that the Saudi government has suddenly got cold feet and changed its stance overnight from military confrontation to appeasement. They favour the theory that the Saudi royal family, sensing the possibility of war, is making a misguided attempt gently to cajole Mr Saddam into a withdrawal.

Hardliners in the multinational alliance confronting Iraqi believe that the Saudis have miscalculated and that Iraq will see conciliatory remarks as a sign of weakness. Prince Sultan has already undermined the credibility of the offensive military option – a threat designed to reinforce the economic *blockade* – by saying in September that Saudi Arabia would not be used as a launching pad for an attack against the Iraqis.

Saudi Arabia is understandably keen to avoid war, but it would also like to see Iraq's military machine destroyed or weakened. Above all the Saudis – although grateful for American protection – are anxious to remove US troops from their soil as soon as possible, something which may be easier with a war than without one.

The presence of infidels on Saudi territory guarding the holy Moslem cities of Mecca and Medina is deeply embarrassing for King Fahd. Already the interior ministry has had to suppress a flourishing trade in cassette recordings of sermons in Saudi Mosques by mullahs criticising the kingdom's reliance on US forces. The Saudi authorities persuaded the Islamic leaders in their pay to find religious justifications for the foreign forces, but the tapes were popular in the conservative tribal areas of the Nejd around Riyadh.

Of the three senior members of the royal family, only Prince Abdullah, the conservative crown prince, has managed to dissociate himself effectively from the US troops. King Fahd issued the invitation, and Prince Sultan is blamed for not having established armed forces powerful enough to defend the country on their own.

Another concern for King Fahd and his brothers is the pressure from the intelligentsia – and even from some junior members of the al-Saud – for a more democratic style of government. Since the start of the Gulf crisis, Saudis have begun to talk far more openly about politics at social occasions and even over the telephone, a trend reinforced by this month's Kuwaiti "people's congress".

At that meeting in Jeddah the al-Sabah, the Kuwaiti ruling family, promised that Kuwait would be a more democratic society if and when the country is liberated.

Saudi businessmen have petitioned their rulers for more representation – even trade unions and professional associations are banned at present – and some women have argued that they should be allowed access to more jobs and be permitted to drive cars.

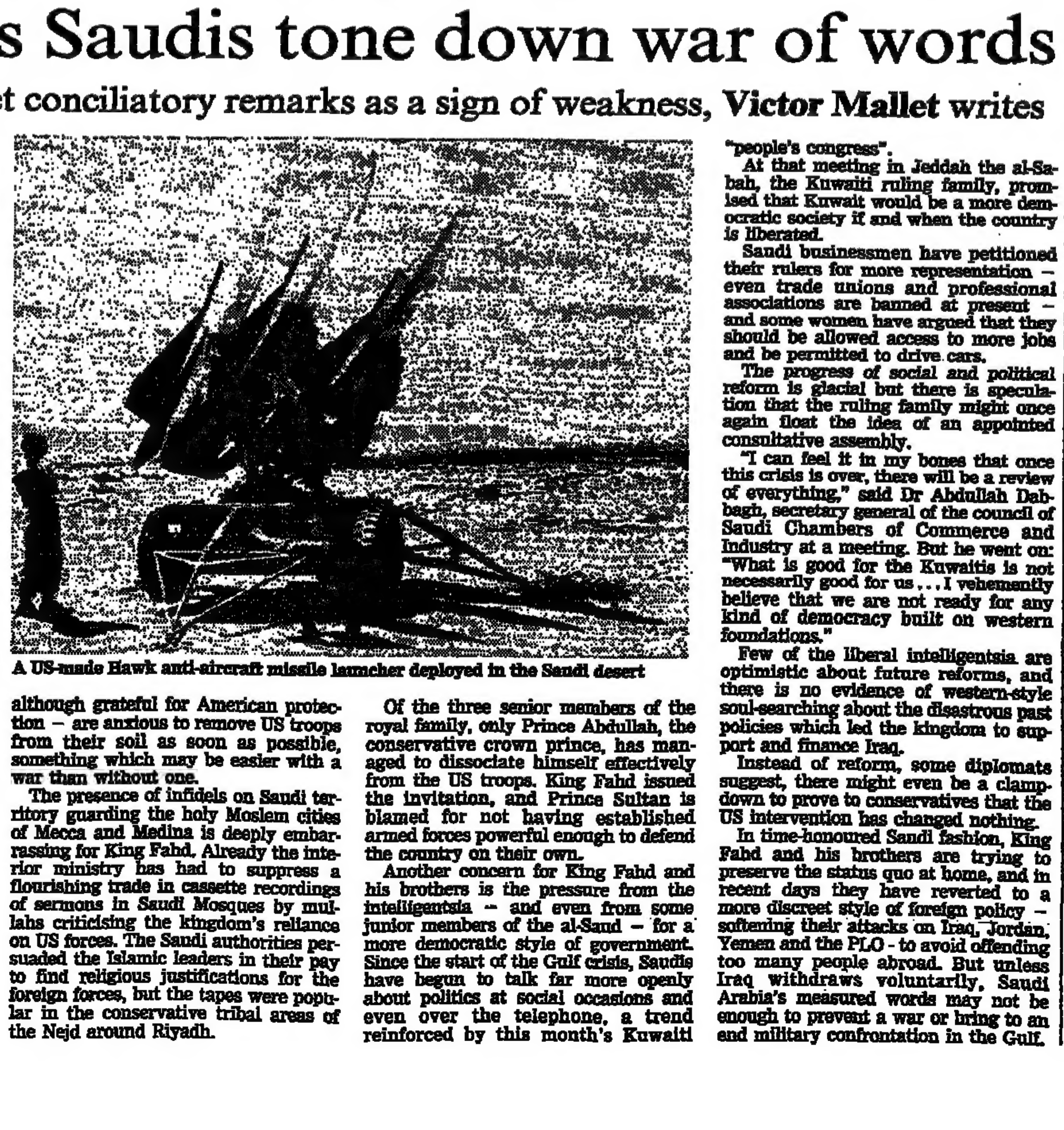
The progress of social and political reform is glacial but there is speculation that the ruling family might once again float the idea of an appointed consultative assembly.

"I can feel it in my bones that once this crisis is over, there will be a review of everything," said Dr Abdullah Dabbagh, secretary general of the council of Saudi Chambers of Commerce and Industry at a meeting. But he went on: "What is good for the Kuwaitis is not necessarily good for us ... I vehemently believe that we are not ready for any kind of democracy built on western foundations."

Few of the liberal intelligentsia are optimistic about future reforms, and there is no evidence of western-style soul-searching about the disastrous past policies which led the kingdom to support and finance Iraq.

Instead of reform, some diplomats suggest, there might even be a clamp-down to prove to conservatives that the US intervention has changed nothing.

In time-honoured Saudi fashion, King Fahd and his brothers are trying to preserve the status quo at home, and in recent days they have reverted to a more discreet style of foreign policy – softening their attacks on Iraq, Jordan, Yemen and the PLO - to avoid offending too many people abroad. But unless Iraq withdraws voluntarily, Saudi Arabia's measured words may not be enough to prevent a war or bring to an end military confrontation in the Gulf.



A US-made Hawk anti-aircraft missile launcher deployed in the Saudi desert

Japan sets tough CO2 targets

By David Thomas, Resources Editor

JAPAN has agreed a target of stabilising emissions of carbon dioxide, the main gas involved in the "greenhouse effect", by the end of the century.

The target, considerably tougher than policies likely to be adopted by the the US or the UK, will represent Japan's contribution to negotiations on global warming due to take place at a large inter-government conference in Geneva next week.

The Japanese government yesterday adopted twin commitments for curbing emissions of carbon dioxide, which are mainly produced by power generation, road transport and heavy industry.

First, the government will stabilise per capita carbon dioxide emissions at present levels by 2000. Allowing for projected population increases, this will allow a 6 per cent increase in absolute emissions of carbon dioxide.

This target, the firmer of the two, represents a compromise between the Ministry of International Trade and Industry, which wanted a 8 per cent increase, and the Environment Agency, which hoped to stabilise absolute carbon dioxide emissions by 2000.

The second target, which is expressed in weaker language, is the Environment Agency's goal of stabilising absolute carbon dioxide emissions by the end of the century. The Japanese government says this would require the wider use of a range of new energy sources such as solar power.

Although the Japanese targets are less demanding than those proposed by some European countries, they are likely to be regarded by environmentalists as highlighting the even weaker positions of the US and UK governments, particularly since Japan is already one of the world's most efficient users of energy.

The Japanese government agreed to review its greenhouse programme each year until the year 2010. Mr Saburo Kato of the Environment Agency said the government might introduce tax incentives to help some industries meet the targets.

Business and the environment, Page 14

هكذا عنه التكامل

Milken broke trading rules, says former boss

By Nikki Tait in New York

MR Fred Joseph, former chief executive of now-defunct investment house Drexel Burnham Lambert, said yesterday he believed Mr Michael Milken, who built up and ran Drexel's junk bond department, broke internal trading and disclosure rules on several occasions.

Mr Joseph was appearing as a government witness at a pre-sentencing hearing of Mr Milken. His testimony to the Manhattan court centred on the leveraged buy-out of Storer Communications in late 1985 and early 1986.

Mr Joseph testified that equity warrants in Storer had been transferred from an institutional seller into the MacPherson Partnership, a grouping organised by Drexel, in a manner that denied Drexel itself the opportunity to buy them.

Units in MacPherson ended up being acquired by a number of fund managers representing institutions which were key Drexel clients. Another significant investor in MacPherson was a vehicle for trusts benefiting the children of Mr Milken and his brother Lowell – a fact which, Mr Joseph said, should have been disclosed to Drexel and was not.

Mr Milken has pleaded guilty to six charges related to securities law violation and has agreed to pay $600m in fines and restitution. However, the judge has ordered a brief hearing of other government allegations of wrongdoing to give her a better sense of Mr Milken's character.

In the case of the Storer transaction, the government alleges that individual fund managers were given inducements in the form of attractive equity in Storer in return for having their funds purchase preferred stock in the buy-out vehicle, which was proving difficult to sell.

Mr Joseph said that, prior to the closing of the Storer transaction, he had a conversation with Mr Milken in which Mr Milken offered to act as a buyer of last resort on the $250m of preferred stock. Mr Joseph agreed, having said that Drexel itself was not willing to do this.

With regard to MacPherson, Mr Joseph said the firm had rules prohibiting favourable treatment of specific client accounts. He conceded that the MacPherson arrangements violated that rule.

Pentagon deal over defence bill

By Lionel Barber in Washington

THE Pentagon has reached agreement with the House and Senate on a $288.3bn defence spending bill which will force a slowdown in the SDI, or "Star Wars", and B-2 Stealth bomber programmes.

The compromise lifts the threat of a presidential veto, but it means that Mr Bush has had to swallow a $18bn cut in his original spending request to Congress.

The one bright spot for the administration was that Mr Richard Cheney, the defence secretary, prevailed in his opposition to further troop cuts in 1991, beyond the 80,000 already agreed. The House had earlier voted to cut 130,000 troops.

The compromise spells trouble for the B-2. The House/Senate conference backed $4.1bn for procurement, research and development, and flight testing. But it does not authorise any new aircraft or provide funds for advance procurement next year.

On SDI, the administration accepted a $1.6bn reduction in funds, from the original request of more than $4.7bn. Clauses restricting anti-missile research were dropped.

Separately, the Senate voted 97-1 to provide at least $700m in new US arms to Israel. The measure still has to win final approval, but it comes on top of a $3bn aid package which already amounts to the single biggest item in the US foreign aid budget.

The new weaponry would primarily come from equipment being moved out of Europe, now that east-west tensions have eased.

The Senate vote shows that pro-Israeli sentiment in Congress is still strong, despite the recently uneasy relations between the administration and the Israeli government.

Congress backs bank access law

THE US government will have greater leverage to secure fair access for US banks and financial service groups in foreign markets under legislation approved by a Senate/House of Representatives conference, writes Peter Riddell.

The measure approved on Monday night, is aimed primarily at Japan. It requires the Treasury to enter into negotiations with countries deemed to maintain unfair trade practices that hamper the operations and growth of US banks, brokerage firms and financial advisers.

It also provides scope for possible retaliatory action.

The legislation was amended during its passage to take account of European Community actions, notably last year's banking directive, which eased US worries about access to European financial service markets.

While no action is mandated by the law, the US Treasury, in conjunction with financial regulatory agencies, will have the power to prevent foreign firms expanding their activities in the US in situations where similar US groups face restrictions against their practices in the relevant country.

Action would be triggered by a report which the Treasury secretary would be required to compile every two years on foreign countries which discriminate against US institutions. If negotiations fail to produce satisfactory results, US agencies could deny applications for regulatory approval.

The measure sets a test for fair trade, known as reciprocal national treatment. This is defined as the US treating foreign institutions in the US like American institutions, and vice versa in foreign countries.

The Treasury would be required to initiate negotiations only when there had been "a significant failure" to accord national treatment to US groups.

Strike at Brazil's central bank hits cruzado

By Christina Lamb in Rio de Janeiro

A STRIKE by more than half the workers at Brazil's central bank has provided an unexpected bonus for exporters and holders of foreign exchange. It is also threatening the bank's tight monetary policy, aimed at keeping down inflation.

The week-long strike has prevented the bank intervening in the exchange market to maintain the cruzado at a rate bankers estimate to be at least 40 per cent overvalued. As a result, the dollar has risen against the local currency over the last week by more than the rate of inflation, for the first time since the Collor administration took power in March.

Workers are demanding a pay increase of 235 per cent.

Bank directors have been holding emergency meetings to discuss ways of maintaining operations in areas considered vital to monetary control.

The bank said it hoped the weekly auction of fixed-term Treasury bills (LTNs) to mop up liquidity would still go ahead. The bank must honour LTNs maturing today and if the sale does not go ahead to cover this liquidity will increase.

Banks and Brazil get ready for debt showdown

Stephen Fidler on the possible resolution of an eight-year crisis

THE stage is set for what could be the last great showdown of the eight-year-old debt crisis.

On one side is the developing world's largest debtor, Brazil, whose government is in the middle of a shock economic programme to eliminate a chronic inflation problem. With foreign debt estimated at the end of last year at $113bn, Brazil is more than $10bn in arrears on its interest payments to foreign creditors, more than $8bn of which is overdue to banks.

On the other are the country's hundreds of bank creditors, represented by a 22-bank negotiating group, led by Citicorp, the largest US bank. Many face unprecedented pressures on their balance sheet and want Brazil – with which their relations have long been rocky – to restart interest payments, suspended in the middle of last year, as soon as possible.

In the middle is the International Monetary Fund and the main industrialised countries that guide its policy, the Group of Seven. The staff of the IMF is keen to support Brazil's anti-inflation plan with a standby loan programme, but there is one stumbling block – Brazil's unwillingness to commit to a resumption of interest payments to the banks.

With the blessing of the G7, the IMF was freed for the first time last year to lend to countries in interest arrears to commercial banks, as part of a new debt strategy which focused on lowering countries' debt burdens, rather than providing them with more new loans. The aim was to remove the effective veto commercial banks had over the implementation of IMF economic reform programmes.

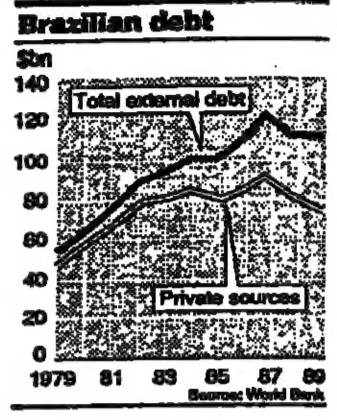
The Brazilian case has crystallised worries in the G7 about the effect the new strategy was having on international financial discipline. Debt arrears to banks from third world debtors have tripled to $21bn since the new debt strategy was announced in March last year. Brazil's refusal so far to make even token interest payments to banks during negotiations which started in New York earlier this month suggests that it may be trying to push the new policy to its limit.

The G7 appears unwilling to be pushed. An unusual paragraph in the communiqué issued in September by G7 finance ministers called for Brazil to resolve its interest arrears problems with the banks. Since the G7 dominates the IMF board which must approve all the Fund's loan programmes, it is in a position to block the loan until Brazil agrees to pay some interest.

According to knowledgeable sources, deputies to the finance ministers of the G7 have already perused, at a meeting in Washington, the opening Brazilian proposal made to banks in New York earlier this month. They say there is no question, at this stage, of IMF board approval for the loan, originally due before the board later this month, unless there were concessions from the central bank governor, Mr Ibrahim Eris, on his visit to Washington yesterday.

The plan was unanimously rejected by the 22 banks, which in a joint reply said "Brazil's initial proposal does not represent a basis for negotiation."

Brazilian debt



The plan includes:

- Exclusion of private external debt from the restructuring and therefore, as soon as possible, principal and interest on this debt will be freely remitted abroad. Brazil estimates there is $9bn of such private debt, but the banks' own estimate is less than half that.
- Interest owed to commercial banks, which now exceeds $8bn, will be paid, when the debt restructuring agreement becomes effective, by a bridging loan from bank creditors.
- Banks will be able to convert their loans into one of three types of concessional bonds, none of which carries any collateral to back interest or principal payments.

The first option is a zero coupon bond, with a 45-year maturity, which will be redeemed at quarterly auctions.

The second option is for interest reduction bonds, with a 25-year maturity and an interest rate which increases until the 10th year, when it settles at 7 per cent.

The third option is for an exit bond with a 15-year maturity and an interest rate increasing until the fourth year, settling at 3 per cent.

The banks said the proposal did not satisfy any of the principles they outlined.

It would not restore Brazil's creditworthiness quickly and did not provide an acceptable resolution to the problem of interest arrears.

The banks were not being treated equitably in relation to the other creditors – a reference to the Paris Club of creditor governments to which Brazil is proposing an early resumption of interest payments.

Brazil had to recognise, the banks said, what is viable in the marketplace and any restructuring would have to involve options including, among other things, new loans and bond-for-debt exchanges with appropriate collateral. These collateralised instruments have been used extensively in other debt reduction accords.

The banks had other problems with the Brazilian presentation.

Brazil said its budgetary position was so weak that the most it could pay to the banks in debt service was 0.2 per cent of GDP – about $1bn a year. "If Brazil's budget is so precarious, it's difficult to see how the IMF could say that it has a satisfactory fiscal plan," said one banker.

These differences will only be resolved through a long, hard struggle. It will not be the last battle between debtor and creditor in the current debt crisis, but in the apt language of military strategists, it looks like being the decisive one.

Canada slips into recession

By Bernard Simon in Toronto

CANADA has officially slipped into recession, with output falling for two successive quarters, according to Mr Michael Wilson, finance minister.

Mr Wilson, who for the past few months has avoided uttering what has become known as the "R" word, acknowledged to the House of Commons' finance committee that preliminary data showed a decline in output for the third quarter. This followed a 0.4 per cent contraction in the previous three months.

He said the economy needed "an easing in demand to turn the corner on inflation pressures. This easing is happening." The recession would not be a severe one, Mr Wilson believed.

Private sector economists forecast a shallow downturn, but a slow recovery. The Royal Bank of Canada expects real gross domestic product to edge up by 0.7 per cent this year, to shrink fractionally in 1991 and to advance by 2.4 per cent in 1992. It said the downturn would be cushioned by moderate inventory levels, a brake on the recent slide in commodity prices, and slowing wage and price inflation.

Argentine rebel army chief held

By John Barham in Buenos Aires

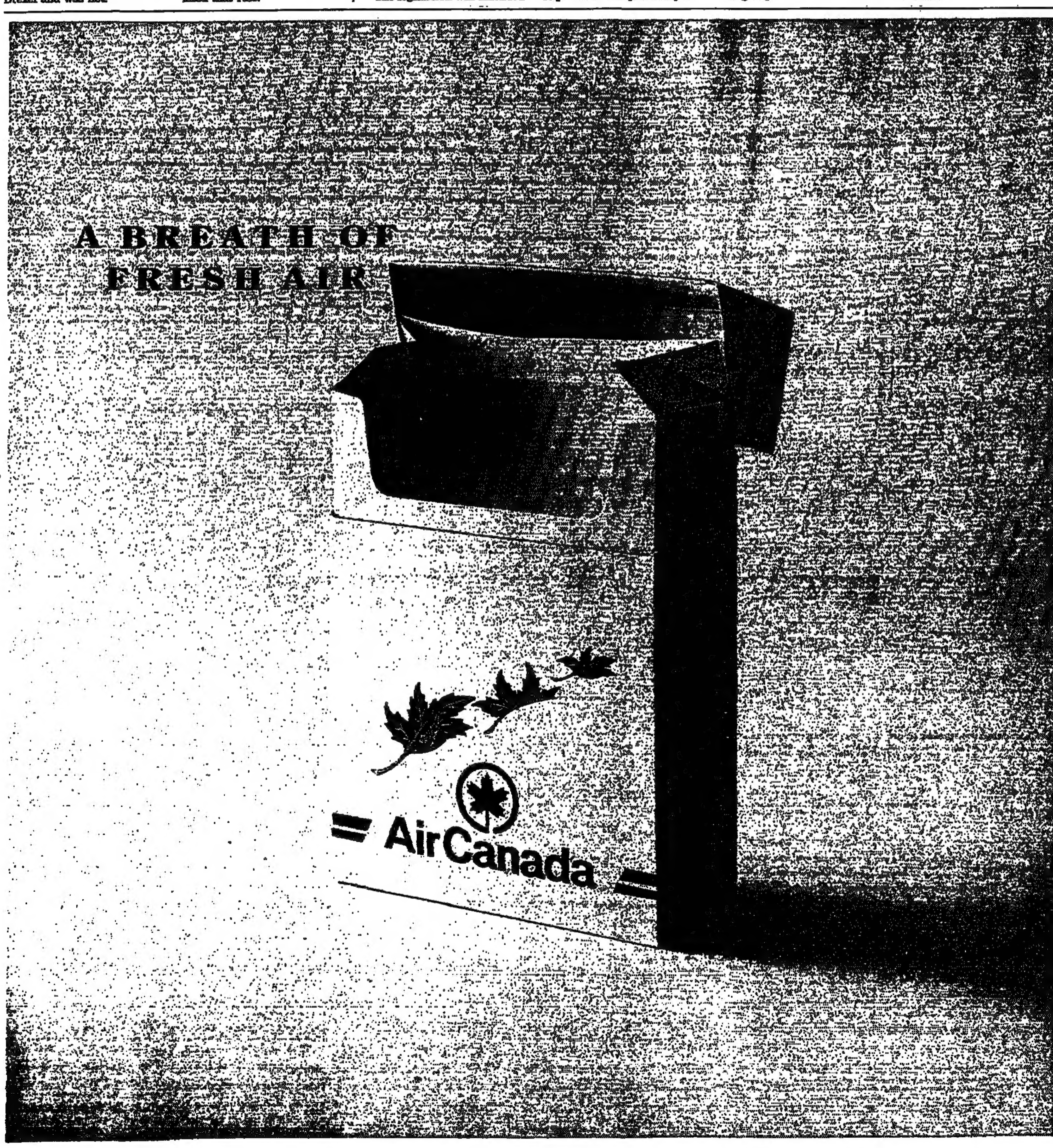
RETIRED Colonel Mohammed Ali Seineldin, self-proclaimed leader of an extremist faction of Argentina's army, was sentenced on Monday to 60 days' detention at an army base for 'insubordination.'

The Colonel was punished for sending a letter on Saturday to President Carlos Menem warning of impending upheaval in the armed forces. He may also face charges for circulating videos and letters criticising military authorities' and the government.

Commentators said yesterday that Colonel Seineldin's gesture was a public relations exercise to capitalise on discontent in the army over low pay, and in society over Argentina's worsening economy. However, Defence Minister Humberto Romero said the military situation is "absolutely normal."

Minor rebellions protesting over low pay have broken out since President Menem took office last year.

Colonel Seineldin demands that soldiers, like himself, who were forcibly retired from active duty following those uprisings should now be allowed to rejoin the army.



Excell demise sends shivers through telecoms sector

By Charles Leadbeater, Industrial Editor

THE RECESSION spread yesterday to one of the most dynamic sectors of the UK economy in recent years as Excell Communications, the mobile telephone operator, went into receivership.

The collapse shows that even in high-growth sectors, heavily indebted companies can be vulnerable to pressure of high interest rates. It is thought to be the first service provider to go out of business since the mobile telephone sector began its spectacular growth about a decade ago.

The Manchester-based company's failure will not only cast a shadow over the rest of the mobile telephone sector but also Kleinwort Benson, the investment banking group, which is Excell Communications' main banker.

Kleinwort Benson, which last week revealed it had incurred a £29m loss on the sale of a large block of shares in Premier Consolidated Oilfields, is thought to have outstanding loans to Excell worth more than £10m. The bank yesterday declined to comment on the extent of its exposure.

The collapse of Excell, a middle-ranking service provider which employs about 50 people, reflects a combination of factors which analysts believe could claim other mobile telephone service providers in coming months.

The growth of mobile telephone subscribers has slowed markedly, largely because of the 11 per cent decline in new car sales this year. However, the sector's slowing growth has not relieved the fierce price war between service operators scrambling to win market share. They have also been hit by a high turnover of subscribers and high debt.

Grant Thornton, the accountancy firm appointed as receiver by Kleinwort Benson, said it was seeking to sell the business, which has between 15,000 and 20,000 subscribers, to another mobile telephone service provider.

The service providers purchase air time from the two cellular network operators, Racal Vodafone and Cellnet, the British Telecom subsidiary, and then provide subscribers with handsets and services.

Racal Vodafone, which is also owed significant amounts by Excell, called in Touche Ross, the accountancy firm as receiver at Excell on its behalf.

Sale likely of 100% of power groups

By David Thomas, Resources Editor

THE GOVERNMENT now looks certain to sell 100 per cent of the 12 regional electricity companies when they are privatised in December.

Ministers are expected to decide later this week on a 100 per cent sale, which will result in equity proceeds of about £5bn.

They will rule out the other option of selling 60 per cent of the companies unless a large unforeseen event such as war in the Gulf disrupts the markets.

The 12 regional companies' agreement this month to relatively high first year combined dividends of about £320m, together with the recent calm in the markets, has swung opinion within the Department of Energy and among government advisers behind a 100 per cent sale.

A submission is expected to be made by officials today to Mr John Wakeham, energy secretary, in favour of a 100 per cent sale. Mr Wakeham is then expected to agree this course of action with Mr John Major, the Chancellor, either tomorrow or on Friday.

The timetable is dictated by the authorities' desire to settle the matter before the pathfinder prospectus is published. The text of the prospectus has to be sent to the printers this week in time for publication on November 2.

If the government were to decide on a 60 per cent sale, then an indication of its policy towards its remaining 40 per cent stake in the companies would have to be contained in the prospectus.

Technically, this indication could await the full prospectus, rather than the pathfinder, but such a course of action would be highly unusual. It would cause great unease both to the City of London and to the boards of the regional companies.

Thatcher remains hard on Ecu

Philip Stephens on Tory growing pains over European economic union

John Major and Douglas Hurd are less fervant in opposing Jacques Delors' plan for Emu than Margaret Thatcher.

MRS MARGARET Thatcher will take yesterday's House of Commons debate on Europe as a vindication of her fierce and instinctive hostility to European economic and monetary union.

Only a handful of MPs on either the government or the opposition benches gave anything approaching enthusiastic support for the strategy of Britain's European partners for a single European currency managed by a single central bank.

When Britain's Conservative MPs are told that their authority is threatened by Brussels, their reaction is predictably defensive.

But Mr John Major, Britain's chancellor, and Mr Douglas Hurd, the foreign secretary, will less draw comfort from the outcome.

Their priorities were rather different from those of their Prime Minister.

Like most in the Cabinet they share, albeit with less fervour, her opposition to the Delors blueprint for a single European currency. Their main interest, however, is to promote the government's alternative plan for an evolutionary approach to monetary union.

If the "hard Ecu" plan is to have even a slim chance of success, Britain's European partners must be persuaded that it is more than a diversionary tactic.

Before that, the ruling Conservative party at Westminster must be seen to unite behind it. Neither task will be easy.

Europe, and more specifically European monetary union, is seen by those on both sides of the argument as the issue which threatens to split the Tory party in the run-up to the general election, which has to be called in the next two years.

The best hope of many senior ministers is that the outcome can be "fudged" – essentially delayed – until after the election and, possibly, until Mrs Thatcher stands down as the Conservative party leader. Not all are sure than it can be.

If a choice has to be made before then, a small but vocal minority of Tory MPs insists Mrs Thatcher will not be allowed to opt for the imposition by Brussels of a single currency.

Against them are ranged an equally dedicated group who insist – with the silent support of the majority of the Cabinet – that whatever their distaste for Mr Delors Britain cannot afford to opt for the slow lane of a two-speed Europe.

For the moment Mrs Thatcher is firmly in the first camp. Her plan is to travel to this weekend's Rome summit with a warning that Britain is prepared to veto the Delors prescription.

Those close to the prime minister acknowledge also that her support for the alternative hard Ecu plan is predicated on the assumption that it would not lead to a single currency in anything but the deeply distant future.

The predictable sound and fury in yesterday's debate – linked officially to Mr Major's decision to take sterling into the EMS exchange rate mechanism – came from her side of the argument.

Tory MPs on the right of the party spoke of loss of sovereignty, of threats of a "planned" European economy and of the lack of democratic accountability of the proposed Eurofed.

In public at least Mr Major and Mr Hurd are playing a similar tune. There have been few concessions to those – notably Mr Michael Heseltine, leading Tory backbencher – calling for the government to play a more active role in the creation of an intergrated Europe.

Mr Major in particular has been careful to insist that Britain's joining of the ERM does not signal capitulation to Emu.

The differences within the Cabinet, however, remain obvious. Mr Major distinguishes the unacceptable "imposition" of a single currency from the *acceptable achievement* of the same result through the evolution of the Ecu.

Mrs Thatcher makes the same distinction only when she sticks to a prepared script. Yesterday she did not.

Mr Francis Maude, the minister responsible for European affairs, put the Treasury's case succinctly in evidence earlier this month to a House of Lords committee.

The hard Ecu, he said, offered a direct route to a single European currency, adding that: "I would argue personally that the next stage of having a single currency could actually happen more quickly going down this path".

In that context, the plan is seen by most of the Cabinet as a chance, in the words of one, "to keep Britain in the game".

It is designed to appeal to the silent majority of Tory MPs whose instinctive opposition to a single currency is hedged by alarm at warnings from the City of London and industry of the dangers of being left behind.

In parallel, the Treasury and the Foreign Office remain convinced that once the inter-governmental conference on Emu gets under way in December, their objections to the Delors plan will gather increasing support from other member states.

A chance to stay in the game, however, will depend on persuading Mrs Thatcher to sound at least as positive about Britain's alternative as Mr Maude.

Few in the Cabinet are as yet convinced that she will.

Child benefit increase expected in attempt to quell Tory unease

By Philip Stephens, Political Editor

THE GOVERNMENT plans to announce an increase in child benefit today in an attempt to defuse the mounting political row over its three-year freeze on the general level of the payout.

The introduction of an additional payment to mothers for their first child is in response to fears by Conservative MPs that freezing benefits for the fourth consecutive year would undermine political support for the Tories.

The change – which MPs expect to take the payment for the first child from the present £7.25p up to around £8 or £8.25 week – follows Mrs Margaret Thatcher's direct intervention in negotiations on the future of the benefit.

Estimates at Westminster of the cost to the Treasury last night ranged from £150m to £250m a year. The latter figure represents the amount needed if an additional £0.75p were paid to each of the eldest children in 6.8m families. There were strong suggestions, however, that the supplement may be restricted to children below a certain age, perhaps 5 or 11, holding the cost down to the lower figure.

Ministers conceded that the the prime minister's intervention in negotiations between the Treasury and the Social Security department had lent credence to opposition claims that the government had been forced into a U-turn.

Tory party managers at Westminster also acknowledged that the government's disastrous defeat in last week's Eastbourne by-election had heightened fears of a backbench rebellion if child benefit had been frozen again.

Mrs Thatcher hopes that *increasing the benefit will also* provide the basis for a more selective commitment to the payment of child benefit in her manifesto for the election due by mid-1992.

Facing pressure in the House of Commons to spell out her policy following her talks with senior ministers on Monday, the prime minister declined to give any advance details of the extra payment.

Mr Michael Meacher, Labour's spokesman on social security, last night declared the new arrangements a "mere sop offered by a government panicked by Eastbourne."

The formula was hammered out in negotiations between Mr Tony Newton, the social security secretary, and Mr Norman Lamont, the chief secretary to the Treasury.

Mr Lamont, grappling to contain a £10bn overshoot in next year's public spending target, initially *opposed* any increase in a benefit which costs the Treasury £4.6bn a year.

Expectations of returns from management buy-outs still high

By Charles Batchelor

INVESTORS who finance management buy-outs have not reduced the level of return they expect to get from their investments despite problems encountered by some recent deals, Mr Robert Smith, chairman and chief executive of Morgan Grenfell Development Capital, told the Financial Times conference on buyouts in London yesterday.

Despite the large amounts of money available for buy-out investment, which might have been expected to drive down returns, many investors still expect to make at least 35 per cent, and in some cases, 40 per cent or more. "I don't see any drive for people doing deals at 25 per cent or 30 per cent," he said.

The managers, for their part, take buy-out deals very seriously even though their financial commitment is relatively small compared with that of the institutions. One team of managers insisted on bringing their wives to a discussion meeting to meet the wives of the lead investors' team, Mr Smith said.

He forecast a revival of large public company buy-outs in 18 months to two years. Public company buy-outs have dried up in recent months because of a reluctance on the part of banks to finance them and objection from the institutions *that managers could* exploit insider information to the detriment of other shareholders.

However, Mr Cob Stenham, non-executive chairman of bankers trust company, argued that no further protection for shareholders in public company buy-outs was needed.

All shareholders could call on the advice of independent financial advisers, he said. The prospects of greater rewards after a company buy-out actually meant that the company's *performance* would improve.

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CONFERENCE
BUY-OUTS THEIR FUTURE

The risks facing the providers of lean finance to buy-outs were described by Mr Gordon Bonnyman, managing director of Charterhouse Development Capital.

Banks could only earn a fixed rate of interest on their investment while equity providers had the prospect of a very high rate of return, he said. It did not take much to blow a buy-out deal off course. If a bank experienced only one failure on a portfolio of 10 deals this could wipe out its entire return, Mr Bonnyman said. The more intelligent banks also took up equity stakes, he said.

From the point of view of the managers, high borrowing levels could have a positive impact, according to Mr Martin Bralsford, group managing director of Premier Brands, which staged a buy-out from Cadbury Schweppes in 1986. Mr Bralsford blamed the problems encountered by some buy-outs on managers having prepared inaccurate business plans or having paid too high a price on the high level of borrowings.

Leverage acted as an incentive for operating managers who knew loans had to be repaid, he said. Managers tended to regard equity by contrast as being cost free capital.

Buy-out companies performed better than the average in their industry in the first three years after buy-out but after that time their performance was more ambiguous, said Prof Mike Wright, director of Nottingham University's Centre for Management Buy-Out Research.

Immediately after buy-out, 69 per cent of companies improved their trading profits, 62 per cent introduced new products and 48 per cent improved their management of their debtors, he said. Studies which had shown a decline in the performance of buy-outs after three years had involved only small numbers of companies selected on a non random basis and must be treated with caution, he urged.

Mr Charles Peal, managing director of Legal & General Ventures, outlined a 10-point code for institutional investors in buy-outs. He urged investors to avoid deals where the advisers charged fees of more than 3 per cent.

Turning to the state of the buy-out market in Italy Mr Paolo Colonna, president of Schroder Associati, said deals were small and used little leverage compared with their counterparts in the UK and the US.

Most Italian buy-outs were from family companies and usually involved outside mangers staging a buy in, he said.

UK NEWS

Allied Dunbar pioneers resign

By Richard Lapper and Eric Short

ALLIED DUNBAR, the UK's largest unit-linked life insurer, yesterday parted company with two of the men who pioneered its rapid growth in the 1970s and 1980s.

Mr Mike Wilson, 46, and Sir Mark Weinberg, 59, the chief executive and non-executive chairman respectively, are to leave the company, which is part of the British American Tobacco Group.

Sir Mark's decision to resign as executive chairman in order to "pursue other options" precipitated the shake-up.

Mr Wilson said yesterday that "during the course of this year" he had developed "a burning desire" to start his own business and therefore felt unable to succeed Sir Mark as chairman. His resignation would be effective as of 1 January 1991, although he would act as a consultant to the company until the end of July 1991.

Sir Mark said yesterday that he intended to continue working in a "semi-executive" capacity in the financial services sector, but categorically denied that he had received an approach from Barclays Bank. He is prepared to consider offers of such work, however.

Mr Wilson said that he had no intention of joining any rival company but had yet to finalise his own new business plans. Although this was "the era of large companies", Mr Wilson said that niches existed for smaller ventures that could be successful.

Mr Wilson said his departure had been extremely amicable. "There has been no ill-feeling at all," he added.

Sir Mark, a South African lawyer, came into the life insurance industry in the early 1960s when together with Mr Sid Lipworth and Mr Joel Joffe, he founded Abbey Life. Together with Mr Wilson, Sir Mark and his associates were then involved in the formation of Hambro Life, now Allied Dunbar, in 1970.

This team then linked up with Mr Wilson to orchestrate Allied Dunbar's expansion in the 1970s and 1980s, taking it into the top five UK life companies. Allied Dunbar began the practice of selling life policies through a direct sales force, employing salesmen under sales agreements rather than as direct employees.

BAT is appointing Mr Brian Garraway, deputy chairman of BAT, to take over the role of executive chairman. Mr Garraway, is forming a chairman's committee to assist him in running the company until a new chief executive is found.

Lecturer focuses on misleading statistics

By Rachel Johnson, Economics Staff

TWO EYES joined together by a head measure economic activity much better than official statistics, Mr Norman McRae argued yesterday in the 21st Wincott Lecture in London.

Mr McRae, who was for many years deputy editor of the Economist magazine, singled out the Soviet Union as being the worst dispenser of erroneous information.

The World Bank and the International Monetary Fund colluded, he said. "All through the communist years they have published figures of communists gross national products they knew to be wrong."

In future, statistical truth should be demanded, while arguments from official bodies that "they must only publish official figures" were "quite wrong." Official statistics usually had no relevance to reality, he said.

He did not exempt international legal statistics from criticism. In Japan, he was supposed to believe that crime rates fell, even though a third of its population moved into towns during the industrial revolution.

Britain has entered recession, warn Chambers of Commerce

By Rachel Johnson, Economics Staff

THE UK has entered a deep recession which government figures were just barely beginning to record, the British Chambers of Commerce said yesterday.

The chambers – locally-based trade organisations – say the results of the latest economic survey showed "without any question" that business was suffering a "severe recession" in all areas apart from the north-east.

The government has never applied the word "recession" to current conditions, and has maintained that the economy is slowing in response to tight monetary policies.

Industrialists have pleaded with the chancellor of the exchequer, Mr John Major, to lower interest rates, and complained that sterling has been locked into the exchange rate mechanism at a high rate, making export growth difficult.

Mr Major acknowledged their plight when he said in a speech last week that 1990 would be "uncomfortable" and that next year "would not be easy".

The quarterly survey – thought to be the biggest ever undertaken in the UK, interviewing 6,000 businesses in 12 regions – revealed that the drop in British manufacturers' home orders as a result of weak domestic demand was "very worrying and unprecedented."

While 8 per cent reported an increase in orders, 46 per cent reported a decrease leading to an unprecedented negative balance of minus 18 per cent.

The recession, compounded by high interest rates and a strong pound, had also "obliterated" export growth. Although last month's trade figures were good, with exports higher and imports lower, the survey indicated that the trend will deteriorate as domestic demand diminishes.

Manufacturing exports had been subject to a "dramatic swing" with the balance reporting increased export orders sharply down in the third quarter.

"The results are profoundly worrying," said BCC president Mr Miles Middleton. "Business is in a deep trough, with domestic and export business, employment and investment all hit."

"Relief may be a long time in coming and in the meantime both government and chambers of commerce must do all they can to help businesses to cope." The survey revealed that the recession was not, as most economists have believed, confined to manufacturing in the south-east.

The service sector, which makes up two-thirds of the economy, was also in net decline on home orders. Every region except the north-east was shedding labour, especially from large businesses. Growth in investment had "all but halted in the country as a whole."

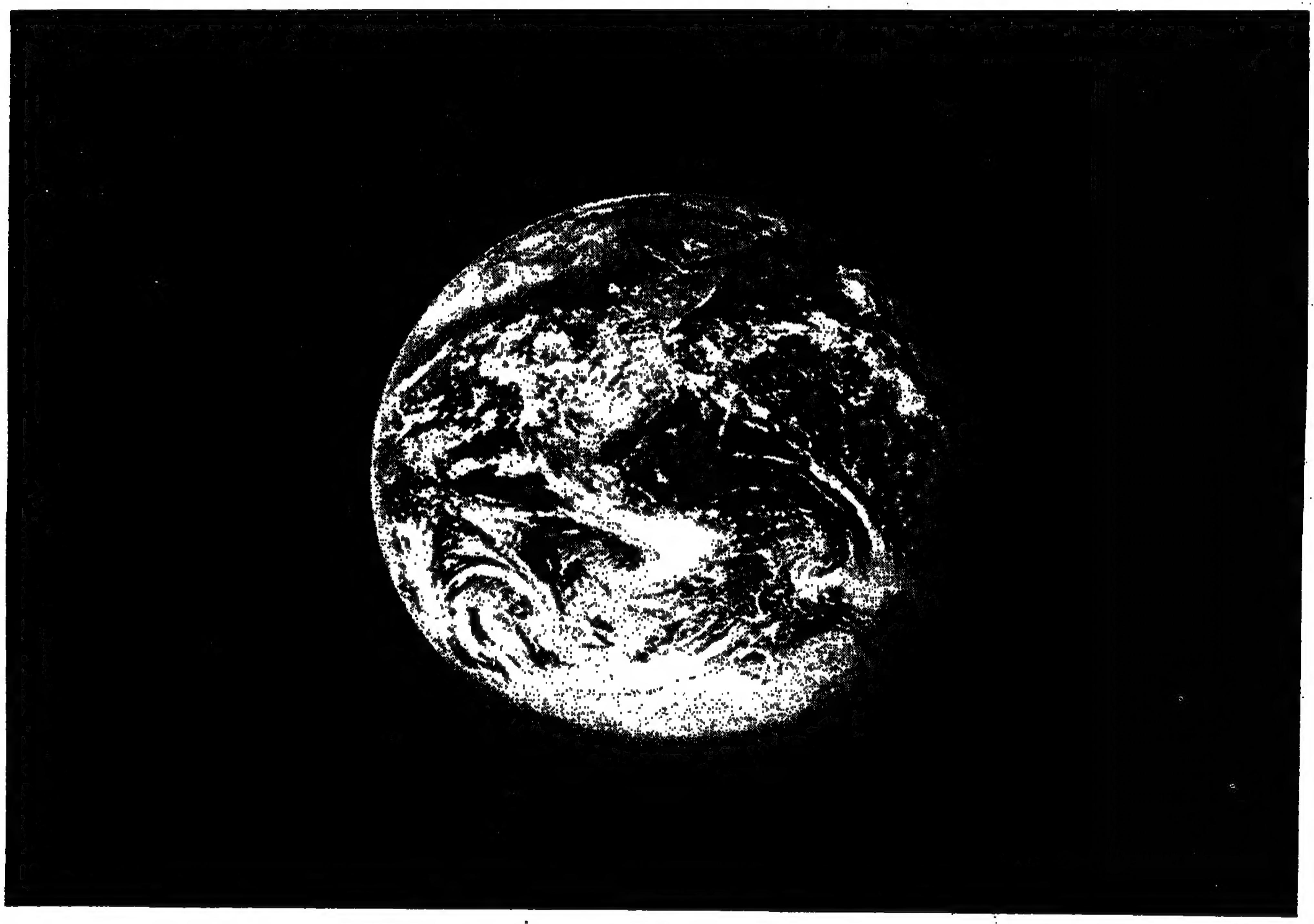
● A leading insolvency practitioner yesterday warned that no UK company, from the biggest to smallest, was safe from trouble or collapse in today's economic conditions, David Waller writes.

Mr Christopher Morris of Touche Ross, the UK's fifth largest accountancy firm, said that UK companies were vulnerable on the economy, the environment and fraud.

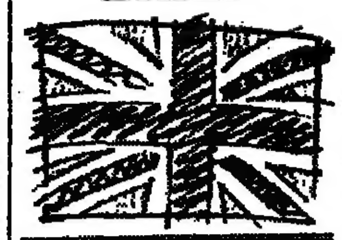
He warned that large financial institutions could easily be brought down by fraud, and that large industrial companies were vulnerable to environmental problems.

These factors, combined with the state of the economy, made it likely that 1990 would see a new record of business failures, topping the previous peak in 1984, when 21,000 companies collapsed.

Quarterly economic survey, £15, British Chambers of Commerce, Sovereign House, 212 Shaftesbury Avenue, London. Lex, Page 16



BRITAIN IN BRIEF



Greenpeace to test new Water Act

Greenpeace is to take UK-based chemicals multinational Albright & Wilson to court in what it says will be the first of a series of prosecutions of UK chemical companies under the 1989 Water Act.

It is the first private prosecution of an industrial company under the act and will overthrow industry's assumption that legislation is weighted in its favour, said Mr Tim Birch of Greenpeace, the environmental group. "This is just the beginning of a process whereby we intend to prosecute a whole series of chemical companies on the Mersey and the Tees," he said.

The case against Albright & Wilson, a subsidiary of US industrial company Tenneco that produces chemicals for detergents and toiletries, is based on samples of discharges into the Irish Sea from the company's Marchon plant in Whitehaven, Cumbria.

Business park to create new jobs

A business park is to open as part of Sunderland's new enterprise zone on a 78-acre site about three miles from Nissan's car factory.

By 1995 the park will provide 1.25m sq ft of industrial and commercial space and a hotel. It is expected to create about 5,000 jobs in the north-east of England. Nearly 50 acres of the park will have enterprise zone status, which was granted after the closure of Sunderland's shipyards nearly two years ago.

Northern UK avoids recession

More evidence that northern England is withstanding recessionary pressures better than before came with the results of the most comprehensive survey yet of industry and commerce in the north-east and Cumbria.

The survey, which has more than 1,100 respondents, shows that third-quarter profits and turnover continued to grow for most businesses.

The majority of these are maintaining staffing levels. More than a quarter of respondents expect to recruit more staff before the end of the year.

Turtles books sell 2m copies

Teenage Mutant HeroTurtles, the anarchic pizza eaters from the US, have taken the children's book market in Britain by storm.

Since the beginning of September, the children's division of Harper Collins, has sold more than 2m copies of mini-hardbacks combined with story tapes.

Mr Peter Stafford, sales and marketing director of children's books at Harper Collins, said: "this is a phenomenon the like of which has never been seen before in character merchandising."

Courtaulds, GM in joint venture

Courtaulds Textiles and the Inland Fisher Guide division of General Motors are to set up a joint venture to develop new fabric manufacturing methods for the automotive industry.

The company, to be based in Nottingham in the Midlands, will investigate new ways of producing seat covers for a GM mini-van.

Inner city policy criticised

Urban development corporations, the flagships of the government's inner city policy, are failing to deliver jobs and investment for the inner cities, according to a recent report.

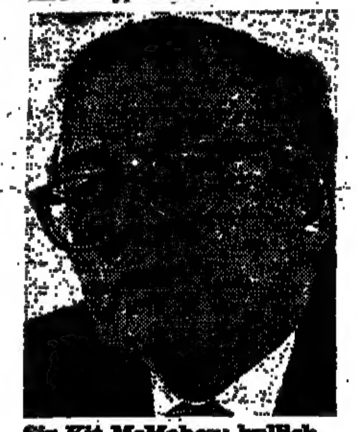
The Centre for Local Economic Strategies, a local authority think tank, says in that lack of accountability in UDC structures, detachment from the community and over-emphasis on property-led development has meant failure to deliver "the types of jobs and low-cost housing which inner city communities really need".

Lower inflation forecast for '90s

The UK is poised to reverse the high-inflation trend of the 1980s, according to Midland Montagu, the investment bank.

At a London seminar on the prospects for UK inflation, Sir Kit McMahon, chairman and chief executive of Midland Bank which owns Midland Montagu, said the bank forecasts that the UK would achieve inflation of below 4 per cent in the 1990s.

Midland Montagu's gilt-edged economics says pessimism over inflation has been overworked. A tendency to devalue the currency; wage militancy; and the



Sir Kit McMahon: bullish

government's expansion of productivity growth by stimulating higher demand had all fuelled past inflationary surges, but these would have less impact in the future.

Plans for new tube stations

Plans to build two new London underground stations at Bermondsey and Southwark on the proposed Jubilee line extension to docklands have been approved by Mr Rofer Freeman, the transport minister.

BUSINESS AND THE ENVIRONMENT

Turning over a new green leaf

David Thomas describes how Norsk Hydro took a critical look at its environmental practices

The young environmental activists who climbed over the fence of one of Norsk Hydro's main chemical plants in Norway in 1987 and found soil impregnated with mercury could not have imagined the full consequences of their actions. They set in motion a chain of events which has resulted in the publication today of one of the most thorough environmental self-examinations ever by a company in Britain.

The bad publicity which flowed from the activists' raid on the chlor-alkali works at Heroya was one of the many blows dealt at the time to the environmental reputation of Norsk Hydro, Norway's biggest industrial group. Smelter contamination of seafood in two fjords; pollution of groundwater by ethylene dichloride; oil contamination beneath an ethylene plant; a large fire at a site making vinyl chloride monomer, the main raw material for PVC: these were some of the problems which jolted Norsk in its Norwegian base.

In environmentally conscious Norway, Norsk's top management was almost overwhelmed by the hostile reaction, as John Speirs, Norsk Hydro's UK managing director, explains: "The company had prided itself on being an environmentally responsible concern. So it was a hell of a shock to discover it wasn't as good as it had thought."

Norsk's initially defensive reaction gave way to a resolution to go on the offensive. Last year, the company published an environmental examination of its Norwegian operations, which was warmly praised by the respected environmental newsletter *ENDS Report*: "In its detail and frankness, (it) appears to be unique among European manufacturing businesses."

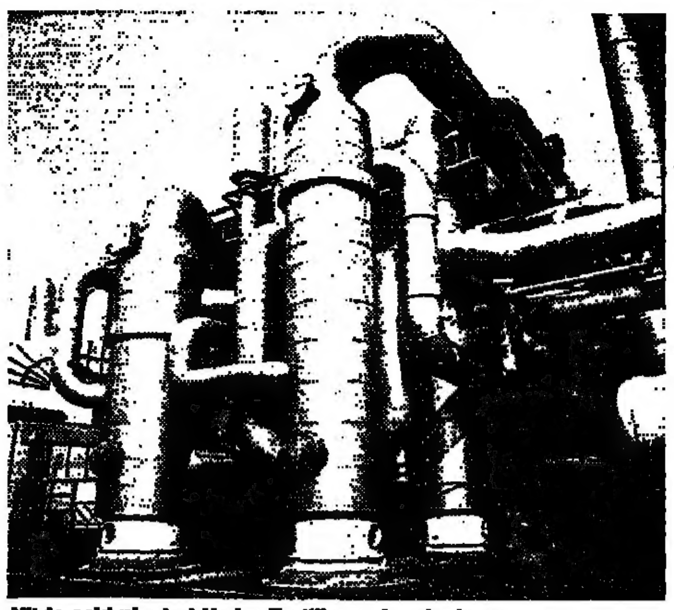
Speirs lobbied Norsk's head office for permission to be the first overseas subsidiary to follow suit. It was an initiative which did not meet with universal approval. "I had to persuade my colleagues in the UK that it was a good idea. There was some hesitation," he recalls.

After all, Norsk's £400m UK turnover and its 2,500-strong UK workforce depend on activities of extreme environmental sensitivity: the manufacture of nitrogen-based fertilisers, PVC ad PVC compounds, aluminium fittings, as well as extensive fish farming activities in the Scottish highlands. But what really gave Norsk UK's managers pause for thought was the proposal to follow its Norwegian parent in publishing the results of the audit.

"Most businesses are quite comfortable about internal environmental audits, but are less happy about going public, including admitting that they're not perfect in all respects," Speirs acknowledges.

Norsk UK drew on two sources of information in preparing its environmental audit. First, monthly internal environmental reports which Norsk's plant managers were already responsible for preparing. Second, regular internal safety audits which it had launched in 1987 in a bid to cut accident rates by a half.

The result – Norsk UK's first public environmental report, published today – runs to 28 peges and gives much detail on each of the company's main sites in the UK.



Nitric acid plant at Hydro Fertilizers, Immingham

It will no doubt be easy for outsiders to pick holes in Norsk's efforts. Not all the information in the report is standardised: noise levels are quantified against maximum permissible levels at its magnesium plant in Chelmsford, Essex, for example, but not elsewhere. The sections on fish farming are sparser on numerical data than other parts of the report. The text devoted to the benefits of PVC and synthetic fertilisers reads, at times, a little like propaganda.

Yet these are minor caveats when set against the report's virtues. It gives clear data on the pollution performance of all Norsk's plants both over time and when measured against regulatory standards, showing, for example, a decline in nitrogen oxides released to the atmosphere at Norsk's fertiliser plant at Immingham on Humberside from 6 tonnes a day in 1985 to 2.6 tonnes a day last year.

Norsk's report also makes a first stab at a more sophisticated type of environmental analysis. It gives a rough "eco-balance" for its main products: the raw material and energy need to make them; and how the products are disposed, including the extent to which they can be recycled.

But the single most impressive fact about Norsk's initiative is that the company both commissioned *and published* an independent assessment of its own environmental conclusions. The environmental assurance arm of Lloyd's Register visited six of Norsk's main UK sites. A summary of its findings is published at the back of Norsk's report.

Lloyd's Register concluded that Norsk's environmental performance is generally above average, but identified five areas where Norsk did not fully meet Lloyd's Register's own environmental standards. These include studies of how to minimise waste at Hydro's main fertiliser, PVC and magnesium operations; a further survey of air emissions at Hydro's PVC plant; and an investigation of how to dispose of the small quantities of fullers earth with traces of ammonium nitrate emitted from the fertiliser plant.

John Elkington, director of the environmental consultancy SustainAbility which carries out environmental audits for companies, says Norsk has broken new ground in the UK by publishing the results of this independent audit of all its environmental activities. "It is light years ahead of what other companies in the sector are doing," Elkington maintains.

Meanwhile, John Speirs is holding his breath to see whether his initiative backfires. The pessimistic part of him fears that green groups will seize on the data in Norsk's report to target the company. The optimist in him says that opening up a company's performance to informed examination is the only way to encourage a rational debate about the environmental pressures on business.

UK Environmental Report. Norsk Hydro UK, Bridge House, 69 London Road, Twickenham, Middlesex TW1 1EE.

Clothes take part in a vanishing act

Scientists at one of Europe's largest apparel companies are preparing a range of biodegradable clothing for sale in 1992.

Steilmann, the privately-owned German company, has commissioned fabric producers to look into the manufacture of pure wools, cottons, linens, cotton/viscoses and viscose/linens without using harmful effluents in the process.

Klaus Steilmann, the company's owner, felt that clothing producers should contribute to a cleaner world. The project will cost him an estimated £3m by the time a range of biodegradable blouses, skirts, suits and coats is launched.

Tests have been conducted only in laboratory conditions. But Harald Marxmeier, a chemist at Akzo, the Dutch multinational, who is working on the project, is adamant that the same principles would apply in natural conditions, although the break-down process would take longer.

In the pre-trials, thin pieces of fabric – some 100 per cent viscose and the rest viscose with resin (formaldehyde) coating – were buried in buckets of two substances. The first was a mixture of grass and wood; the second was soil with bacteria of the type naturally found, but in large quantities.

The pure viscose decomposed completely within 14 days and the resin-treated fabric took slightly longer. It was impossible to monitor, however, exactly how and when the fabric's tenacity changed in the controlled conditions of high humidity at 30 deg C in which the tests took place.

Both mixes performed equally well but it was decided to concentrate on soil (more common in the natural world) for the main experiment. This time an actual viscose/linen suit (70/30 per cent mix respectively) was cut into pieces and buried in buckets of soil in the same laboratory conditions – buttons, foam shoulder pads and the polyamide backing on the suit all included.

The viscose/linen fabric, thicker than that used in the pre-trial, but unbleached and dyed with amino-acids currently believed to be of minimal harm to the environment, broke down within six weeks. (The thicker the layers of fabric, the longer it takes for the soil bacteria to eat them away.)

But the oil-based polyamide backing showed an almost complete resistance to biodegradability – and hence was deemed to be non-bio-degradable. The foam shoulder pads and buttons also showed no loss of tenacity.

Steilmann's next step was to find a method of fusing the suit without using a polyester or polyamide backing. Calling on the technical help of Freudenberg, one of the biggest producers of non-wovens in Europe, he came up with a new backing system.

Viscose itself was bound to the suit outerlay using a process of needle-punching rather than a chemical process, but small amounts of glue were also used. (No glue is environmentally friendly.) Viscose pads will replace the non-biodegradable foam shoulder pads, but the buttons will have to be removed by the consumer before dumping.

A problem still remains concerning the non-biodegradability of the resin-bonded cotton sewing yarn. Steilmann thinks European consumers are concerned enough about the environment to take off buttons by hand and to pay the 4 to 5 per cent extra for the environmentally friendly clothing.

Steilmann sees little possibility of return on his investment in the short term despite the interest he says is already being shown by Otto Versand, the German mail-order house, and Marks and Spencer, the UK-based retailer.

In the UK, the experiments were greeted with scepticism. "Given the right conditions of humidity and temperature, cellulose-based materials will biodegrade," says Cliff Marshall, a scientist at ICI, the British chemicals group. "But in 99 cases out of 100 this wouldn't happen in nature. If the conditions are slightly acidic or the soil is clay the bacteria can't grow enough – especially if the clothes are dumped in landfills with other junk as they probably would be."

According to Martin Taylor, chief executive of Courtaulds Textiles, the British consumer has no interest at the moment in environmentally-friendly clothing. Steilmann's retort is that anyone exporting to Germany will have to face up to the issue, and quickly.

Karen Falconer

The haste to cut out waste

In 1989 it cost western Europe £16bn to dispose of solid waste of which 60 per cent was industrial refuse. By the end of the decade the cost is forecast to rise to £32bn and 75 per cent of such waste will be generated by industry.

Mostafa Tolba, executive director of the United Nations Environment Programme (Unep), has called for a reappraisal of the way in which industry organises its production in order to reduce pollution.

Unep, through its Industry and Environment Office in Paris, has launched its own cleaner production programme to persuade business to adopt greener methods. It urges a change in production operations rather than "bolt on" solutions such as pumps and filters which are added to existing plant and machinery.

Jacqueline Aloisi de Larderel, director of the Industry and Environment Office, says this involves looking at the entire life cycle of an industrial process and modifying it to reduce emissions to air, water and soil and to cut energy consumption and raw materials.

The difficulty of obtaining accurate information on the subject has been a barrier to the spread of the best environmental practice. To tackle this Unep has founded a computerised information system based in Paris which is available to business. Known as the International Cleaner Production Information Clearinghouse (ICPIC), it was established in co-operation with a similar project of the US Environmental Protection Agency. There is no fee for the service and it is available 24 hours a day. Users plug in through their PCs.

The system contains details of environmental legislation in various countries and case histories of the environmental policies which companies have drawn up to tackle their problems. There is a directory of contacts and a bibliography of hundreds of documents on clean technology.

Donald Huisingh, professor of environmental sciences at Erasmus University, Rotterdam, cites several examples of clean technology in a report on cleaner production.

In Sweden a team at the University of Lund initiated a project to reduce waste at seven industrial companies in Landskrona. A waste reduction audit showed numerous waste and emission problems at one company making electrical light fixtures.

In coating the fittings about 200 tonnes of solvent were released annually and an unknown amount of hazardous waste residues came from the paint. After the audit the company changed from solvent-based paints to 95 per cent powder paints. Under the old system painting cost SKr4.3m (£400,000) a year. The new method reduced this to SK2.4m by cutting out paint thinner and reducing costs of waste disposal.

Another example came from a Norwegian pulp and paper firm which was told by the Norwegian Environmental Protection Agency that it must halve emissions of polluting materials, mainly cellulose.

The company was considering installing a waste treatment plant at a cost of NKr40m (£3.5m) which would have reduced pollution by 40 per cent. Instead it was persuaded to introduce a waste reduction programme throughout its operations and bleaching was changed to a chlorine-free system. At a cost of about NKr2.7m it reduced emissions by 60 per cent. Water usage was also reduced 60 per cent and energy consumption 52 per cent.

Using similar concepts considerable improvements in waste reduction have been made by ICI in the UK. In developing agrochemicals, pharmaceuticals and colorants the concept of the "environmental load factor" has been introduced. This focuses on the need to reduce the weight of raw materials, solvents, catalysts and other chemicals which make up the final product.

John Hunt

For more information about ICPIC contact the Director, Industry and Environment Office, United Nations Environment Programme, 39-43 quai André Citroen, 75739 Paris, France

MANAGEMENT

Usinor Sacilor

How the nightmare faded

The state-owned steel group has been turned round by a management that, unusually, enjoyed minimum interference from the government. **William Dawkins** examines the background to this achievement

Usinor Sacilor, not long ago the lamest and most heavily subsidised duck of the French state sector, has come through a long struggle to make itself as competitive as any in the steel industry.

As little as four years ago, the two state-owned companies that merged to form what is now the world's second largest steelmaker were popularly seen as being among Europe's most intractable industrial and political nightmares. They had been set confusingly different targets by successive governments, were uncompetitive, over-manned, heavily subsidised and had smashed the reputations of a sad line of politically appointed managers.

When France's last right-wing government broke with tradition and in 1986 hired Francis Mer, a professional manager with no political links, to engineer a turnround for the steel industry, nobody gave him much of chance.

Today, he has reason to be one of the public sector's most relaxed managers. Mer, former chairman of Pont-à-Mousson, the pipe-making subsidiary of the Saint-Gobain glass group, is still sane and in the same job. And Usinor Sacilor, once a laggard in the productivity league, is now in the same range as Japanese, British and west German competitors measured in man-hours per tonne and has staged a breathtaking FFr 8.3bn round of acquisitions over the past two years.

"We have done what we thought was necessary and possible. In the end, the state has understood that it does not help businesses reorganise by interfering in them. Better to leave managers to manage their problems," says Mer.

Usinor Sacilor's experience parallels that of several other big European steelmakers as they adjust to the fiercer competition caused by phasing out steel production quotas two years ago. However, Usinor Sacilor started later than its British and German counterparts and has also been more aggressive than they have on the takeover trail.

Acquisitions include those of Saarstahl, a pearl of the West German steel industry, Jones & Laughlin, the US's second largest stainless steel maker, and Edgcomb, one of America's biggest independent steel merchants. It has also bought a big minority stake in ASD, Britain's second largest steel distributor. All this has left it with 55 per cent of its FFr 97bn (£10bn) turnover outside France last year, making it one of Europe's most internationally diversified steelmakers.

Francis Mer (left): 'Better to leave managers to manage, their problems'

Usinor Sacilor produced its first profit for 14 years in 1988 and in 1989 paid its shareholder, the government, its first dividend for 16 years. Cynics point out that the dividend, FFr 557m gross, is a small proportion of net profits compared with the amount privately-owned British Steel or Hoogovens of the Netherlands paid in the same year. It is also chickenfeed compared with the FFr 100bn in various forms of state and regional aid pumped into the steel industry in the decade before Mer's arrival.

Mer estimates that roughly a third of the improvement is attributable to the three-year run of growth enjoyed by the steel industry generally. Usinor Sacilor has been helped by the fact that more than half its sales are in what has been the most profitable area of all – flat products. These include hot rolled coils for the automotive and white goods industries, until recently the industry's fastest-growing customers.

Another third came automatically from more than halving the French workforce from 150,000 to 60,000 over the past decade, helped by minimum interference from an economically liberal Socialist government. The rest is due to the underlying efficiency gains from a heavy industrial investment programme and an internal effort to encourage efficiency through training and better job flexibility.

Yet even after all these changes, Usinor Sacilor is not quite like other steel makers. The record FFr 18.7bn it has spent on takeovers and investment in more efficient plant over the past two years has left it with debts amounting to 84 per cent of shareholders' funds. This is higher gearing than that of private competitors, but the French group has less freedom than they have to raise new equity.

It cannot call on the French government, because of severe budget restraints and the administration's understandable unwillingness to give yet more special treatment to steel. But neither can Usinor Sacilor call on the public equity markets because of President Mitterrand's dictum against further nationalisation and privatisation. This restraint has left several other big state companies, like Renault in cars and Rhône-Poulenc in chemicals, with much higher debts than their private sector competitors.

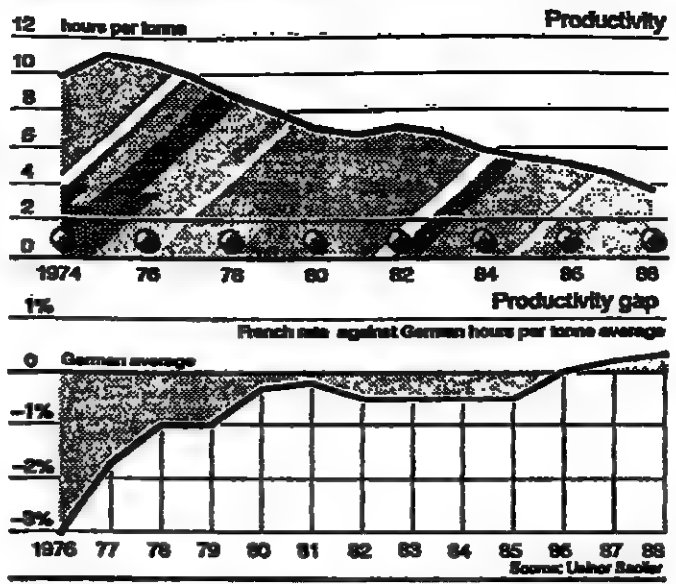
That is why Mer makes no secret of the fact that – at least some time in the next 10 years – he would like all the freedoms of a private company. This is hardly a surprise since his original job description was to groom Usinor Sacilor for an eventual flotation. But this was put on ice when the Socialists came to power in 1988.

But for the time being, he has to seek a fine balance between expansion and caution, which for the present means Usinor Sacilor cannot afford to go on making acquisitions at the old pace. "The question is whether it is more worthwhile to spend money on strengthening oneself industrially and commercially or to spend the same cash on debt reduction…Our broad conviction is to go for industrial and commercial strength, rather than to play the single card of debt reduction," adds Mer.

Usinor Sacilor's acquisition policy has followed three strands: to stick to agreed bids so as to limit costs and management complications; to buy a bigger presence downstream in processing, distribution and stockholding – a trend also followed by British Steel – and to expand in higher value-added products like stainless and coated steels. Its takeovers of distributors in the US, France, Italy and Britain mean that Usinor Sacilor now controls the distribution of around 30 per cent of its output, up from 20 per cent before.

"Buying distributors allows us to increase market share. It means delivery periods are shorter and we can conform more exactly to customers' specifications," says Philippe Choppin de Janvry, director of stainless steel and special flat products. He estimates that direct orders of flat products from Usinor Sacilor plants take two months to process, as against the 48 hours that customers can expect for deliveries from merchants. This allows the group to expand sales with very little investment, beyond the working capital tied up in the stocks held by distributors, adds Mer.

FRENCH CRUDE STEEL



Source: Usinor Sacilor

Usinor Sacilor's takeover of J&L was driven by a different reason. The French company needed a big foothold inside the US market where imports are still limited by a voluntary restraint agreement with the European Community. Until the J&L deal last March, Usinor Sacilor sold only 1m tonnes into the US out of its 23m tonnes annual production.

But more important, the deal lifts stainless steel from 15 per cent to 20 per cent of group turnover – and a higher share of profits – at a time when the outlook for more basic steel products is clouded by declining demand from the car and construction industries. Choppin de Janvry is convinced that the demand for stainless steel will hold up better than that for humbler products, because it requires less maintenance than cheaper steels and so saves customers' costs in the long run. It is the same kind of market bet that Usinor Sacilor got right early in its restructuring when it decided to keep such a large exposure to flat products.

The loss of 90,000 jobs – mainly in the past five years – met fierce union resistance in the early 1980s, which has since dwindled. This is partly because Usinor Sacilor had the luxury of being able to learn from British Steel's earlier experience in reducing its workforce. Usinor Sacilor partly modeled its own armoury of job creation and early retirement schemes on what British Steel had done for its departing workforce.

However, the decline of the French Communist Party and the fragmentation of the trade union movement – parallel with the UK – has also helped. Jean-Claude Georges-François, responsible for social affairs, and one of the two directors that Mer brought with him from Pont à Mousson, reckons the company still needs to lose around 1,000 jobs annually over the next 10 years – mostly from natural wastage.

Another important part of the transformation of Usinor Sacilor has been the attempt to persuade its own staff that profit matters more than output. That was already changing by the time of the merger, in response to the emergence of heavy overcapacity in the European steel industry and the general advance of entrepreneurial values across the French state sector.

Usinor Sacilor has tried to encourage the process by boosting the training budget – to FFr 500m this year, more than 5 per cent of the salary bill – and making it easier for blue-collar workers to seek promotion. Unusually for France, the group has also introduced an element of performance-related pay, though this takes a much smaller share of the average pay packet than at British Steel and Nippon Steel.

"Traditionally, our organisation has been along military lines in that we simply hired people to do jobs. Now we are trying to assess people more on their individual powers, to adapt the organisation to the man rather than the man to the organisation," adds Georges-François.

This flexibility is already in place at management level, where, for example, the new deputy finance director used to be commercial director of Sollac, a flat products subsidiary, a change of job which would have been harder five years ago. For the first time it is beginning to happen at factory level with a system whereby workers can apply to be trained for a more senior job.

The aim is to encourage staff to acquire wider skills than the traditional engineer who hardly needed to speak to another human being during working hours. "Some engineers spend 90 per cent of their day sitting at a machine. They don't see a need to talk to colleagues so they have no idea of the complexity of the business. Somebody like that is incapable of handling market change," says Georges-François.

This attempt to break down the old divisions between jobs was first introduced three years ago and is now being established in around half of Usinor Sacilor's French operations. "It's costly in terms of extra training, but extremely effective," says Georges-François.

Only the next downturn will prove whether Usinor Sacilor has made the right judgment between acquisition and financial prudence, or whether it has bitten off more than it can chew. Mer refuses to offer any predictions, beyond the fact that the restructuring of the European steel industry is far from over.

BA flies into consultancy

By Paul Abrahams

BRITISH Airways, the image of which has changed over the last ten years from "bloody awful" to its – admittedly self-proclaimed – title of "the world's favourite airline", is setting up a management consultancy division. Its aim is to help companies, both within and outside civil aviation, to create a similar transformation in their fortunes.

Brian Robson, head of the new division – Speedwing Consulting – explains that in the past a large number of departments at BA used to be approached by outside companies asking for advice. The various departments used to give advice informally and then suggest that the caller contact external consultants.

Speedwing intends to formalise the process of giving advice by offering services in two main areas: the implementation of a culture change, particularly in the sphere of customer service; and the effective use of information technology.

Robson says that creating a change in values and behaviour is not simply a question of telling employees to focus on customer service. He explains that a new system of management, geared towards the individual company's requirements, needs to be implemented and followed through if it is to be effective.

He says that it might include changes in employees' targets and remuneration, varying the selection employees for certain vacancies and a fundamental reassessment of the company's internal communications style.

Speedwing's other main area of expertise – the effective use of information technology – is, according to Robson, becoming increasingly vital, but is seldom properly managed.

Speedwing aims to tackle the problem in two ways. First, by demonstrating to non-specialist managers how information technology can help them make investment decisions. And second by explaining to IT managers how to provide the services that internal departments actually need. Robson explains that general managers and information technology managers often find they speak mutually incomprehensible languages.

Speedwing has already had discussions with some airlines as well as a number of potential non-aviation customers.

FT LAW REPORTS

Corkscrew advance was obvious

HALLEN COMPANY AND ANOTHER v BRABANTIA (UK) LTD
Court of Appeal: (Lord Justice Slade and Lord Justice Taylor): October 17 1990

A PATENTED invention claim is invalid as having been "obvious" if, at the relevant priority date, it would have been a technically or practically obvious step for a skilled but uninventive technician to take to overcome problems in a design, irrespective of commercial consequences.

The Court of Appeal so held when dismissing an appeal by the plaintiffs, Hallen Company and its wholly owned subsidiary, Hallen Co Ltd, from Mr Justice Aldous's decision that their claim to an invention used by the defendant, Brabantia (UK) Ltd, was invalid. Brabantia did not appeal against the judge's decision that other claims by Hallen were valid and infringed.

LORD JUSTICE SLADE giving the judgment of the court said that Hallen were patentees and manufacturers of corkscrews marketed in the UK and elsewhere under the name "Screwpull". Brabantia manufactured and supplied household goods, and distributed them in the UK.

The Screwpull patent was filed on July 9 1979. It claimed priority from a US application filed on July 17 1978. That priority date was the relevant date for consideration of its validity.

On March 26 1987 Hallen issued proceedings against Brabantia. The issues before Mr Justice Aldous were infringement and the validity of the patent.

Corkscrews had been known for centuries. Most modern products were essentially updated versions of Victorian designs. Those which had their origin in the 19th century were the "twin-lever" type and the "self-puller".

By the late 1970s not only had the self-puller been widely known for many years, but the properties of a friction reducing material, polytetrafluoroethylene (PTFE) had been part of common general knowledge, at least by about 1971.

Hallens' alleged invention comprised the application of a friction-reducing material to the helix of a self-puller. In practice that was found not only to facilitate insertion, but also to produce a striking improvement in extraction.

On the evidence Hallen had been first in the field to market a corkscrew which combined those features.

Hallen alleged infringement of its invention claims, including claim 1, "a corkscrew comprising a helical body and an outer layer of friction-reducing material".

Brabantia contended the invention was not patentable as it was "obvious".

An invention was not patentable as involving an inventive step unless it was "obvious to a person skilled in the art having regard to any matter which forms part of the state of the art . . ." (section 3, Patents Act 1977).

"State of the art" was defined as comprising "all matter . . . which has at any time before the priority date . . . been made available to the public . . . by written or oral description, by use or in any other way" (section 2(2)).

At the trial Brabantia relied on seven different disclosures as forming the state of the art, including US and UK patents.

Having set out the prior art relied on by Brabantia, the judge had to put himself in the position of a man skilled in the art at priority date in 1978, such a man being deemed to have the common general knowledge of the art.

He found that self-pullers were well-known to those interested in corkscrews and formed part of the common general knowledge at priority date.

He found that it was not part of the common general knowledge that corkscrews were coated with friction-reducing material such as PTFE. But he also found that PTFE had been available for many years, that by 1971 its friction-reducing qualities were very widely known; and that any skilled man who wished to coat the helix of a corkscrew with a friction-reducing material would at that time have known of and tried PTFE and would have been able with ease to find a company to do it for him.

He found that in 1978 it was not obvious to UK corkscrew manufacturers to manufacture and market a self-puller with its helix coated with PTFE. He believed manufacturers would have thought such devices were not commercially attractive to make.

On the other hand, the judge also found as a fact that, to the notional skilled man, if he wished to market an improved self-puller, it was obvious to coat the helix with friction-reducing material to aid penetration, and that PTFE would be the substance of choice.

He said that "obvious" in section 3 was directed to whether or not an advance was technically or practically obvious and not to whether it was commercially obvious.

He concluded that claim 1 and another claim were invalid on grounds of obviousness, but that other claims were not.

He made findings of partial invalidity. Hallen appealed.

Mr Watson for Hallen submitted that the judge was wrong in law as to the proper test of obviousness. He submitted that to dismiss as irrelevant the commercial non-obviousness of an alleged invention, was unsupported by authority.

The proper test, he submitted, was to ask whether a man skilled in the art "would" take the progressive step in question (the coating of the helix on a self-puller with friction-reducing material).

In reported cases the question was whether it was obvious that a skilled man "should", or "could" make the invention. Sometimes also "would" had been used.

The "could" test was a minimum condition that must be satisfied on the facts before obviousness could be established. The proper question depended on the facts of each case. For the purpose of testing obviousness one could not assume that the skilled man simply made technical trials for the sake of so doing.

The evidence showed clearly that at least up to 1978 the perfect corkscrew had not yet been invented and there was a continuing search for improvement.

The court had to assume the mantle of the normally skilled but unimaginative addressee in the art at the priority date and to impute to him what was, at that date, common general knowledge in the art in question (see *Windsurfing International [1985] RPC 59,73,74*).

As at 1978 any skilled man, even an unimaginative skilled man, concerned with the design of corkscrews, would have been conscious of two problems, namely how to facilitate (a) insertion of the screw into the cork, and (b) extraction of the cork from the bottle.

If the plea of obviousness was to succeed, the court had to be satisfied that it would have appeared to the hypothetical technician, skilled in the art but lacking in inventive capacity, worthwhile to coat the helix of a self-pulling corkscrew with a friction-reducing material for purpose (a) or purpose (b) or both.

He was not to be expected to take steps or try processes which he would not regard as worthwhile. "Worthwhile" meant worthwhile as a possible means of achieving or assisting in practice the objective he had in view.

The hypothetical technician was not taken as applying his mind to the commercial consequences which might follow if the step or process in question were found in practice to achieve or assist the objective which he had in view.

As Lord Justice Oliver said in Windsurfing, "what has to be determined is whether what is now claimed as invention would have been obvious not whether it would have appeared commercially worthwhile to exploit it."

"Obvious" in section 3 was not directed to whether an advance was "commercially obvious".

Mr Watson submitted that in any event the alleged invention was not on the evidence technically or practically obvious.

The evidence showed that as at 1978 (a) there was scope for significant improvement of the ease of penetration by *all* corkscrews, and (b) such improvement could be achieved by applying a PTFE coating to the screw of *any* corkscrew.

The judge held that on the evidence it was obvious to apply PTFE to any corkscrew. The court agreed. Once the idea of coating a corkscrew with PTFE was known to improve penetration by one type of corkscrew, it was self-evident that it would improve penetration by *any* corkscrew.

The appeal was dismissed.

For Hallen: Antony Watson QC and Guy Burkill (Simmons & Simmons).
For Brabantia: Robin Jacob QC and Robin Miller (Bristows Cooke & Carpmael).

Rachel Davies
Barrister

COMPANY ANNOUNCEMENT

ANGLO AMERICAN GOLD INVESTMENT COMPANY LIMITED

(Incorporated in the Republic of South Africa)
Registration No. 05/09084/06

PROPOSED RIGHTS OFFER TO MEMBERS

Further to the circular to members dated 28 September 1990, members are advised that all the resolutions proposed at the general meeting of the company held on 22 October 1990 were duly passed. Accordingly, as indicated in a press release issued subsequent to the meeting the company is proceeding with a rights offer of S ordinary shares to raise R505 000 000.

Members registered at the close of business on 26 October 1990 (i.e. the record date previously specified) will be offered the right to subscribe for a total of 2 195 201 S ordinary shares of R1 each at a price of R230.00 per share (South African currency) in the ratio of 10 such S ordinary shares for every 100 ordinary shares held at the record date. As previously explained, those S ordinary shares which are subscribed for by persons other than Anglo American Corporation of South Africa Limited (AAC) and its wholly-owned subsidiary companies, will be exchanged for ordinary shares held by AAC at no additional cost to such persons.

The Johannesburg Stock Exchange (JSE) and The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (ISE) have, subject to the registration by the respective registrars of companies of the rights offer documents, granted a listing and permission to deal in terms of rule 535.4a respectively, for the renounceable (nil-paid) letters of allocation to be issued pursuant to the rights offer from Monday, 29 October 1990 to Wednesday, 21 November 1990. The ordinary shares to be transferred to subscribers by AAC are already listed.

Salient dates	1990
Record date for rights offer	Friday, 26 October
Registers closed from to (inclusive)	Saturday, 27 October Saturday, 3 November
Ordinary shares listed ex-rights and listing of letters of allocation commences on JSE and dealings permitted on the ISE	Monday, 29 October
Last day for dealing in letters of allocation on the JSE and ISE	Wednesday, 21 November
Last day for splitting letters of allocation in London	Wednesday, 21 November
Last day for splitting letters of allocation in Johannesburg	Thursday, 22 November
First day for dealing in ordinary shares on the JSE and ISE	Thursday, 22 November
Rights offer closes 14:30	Friday, 23 November
Postal acceptances despatched on or before 23 November 1990 will be accepted until 14:30 on	Wednesday, 28 November
Ordinary share certificates posted	Monday, 3 December

The letters of allocation and the circular giving full details of the rights offer will be posted to Amgold shareholders on Friday, 2 November 1990. A specimen copy of the rights offer circular will be available for inspection during business hours from 26 October 1990 at the London office and the offices of the company's transfer secretaries in Johannesburg – Consolidated Share Registrars Limited, First Floor, Edura, 40 Commissioner Street, Johannesburg.

Head Office:
44 Main Street
Johannesburg 2001

London Office:
40 Holborn Viaduct
London EC1P 1AJ

aac

24 October 1990, Johannesburg

LEGAL NOTICES

To Dennis Jones formerly of 112a Blagreaves, Littleover, Derby and formerly of El Oasis Andaluz, Parcela 376, Estapona, Malaga, Spain.

TAKE NOTICE that an action has been commenced against you in the High Court of Justice, Queen's Bench Division, 1990 N No. 2305, by National Westminster Bank PLC, in which the Plaintiff's claim is for £2,168,867.74, together with interest from the date of issue (21st September 1990) to the date of Judgment or sooner payment at a daily rate of £993.33.

And that it has been ordered that service of the Writ of Summons in the said action on you be effected by this advertisement.

AND FURTHER TAKE NOTICE that you must within twenty one days from the publication of this advertisement, inclusive of the day of such publication, acknowledge service of the said Writ of Summons by completing a prescribed form of Acknowledgement of Service which may be obtained on request from the solicitors whose name and address appear below, otherwise Judgment may be entered against you.

Messrs Wilde Sapte
of King's Cross House, 200 Pentonville Road,
London N.1 9NL.

(Ref: AXS/189987)

Dated 24th Ocotber 1990.

Plaintiff's Solicitors

To Dennis Jones formerly of 112a Blagreaves, Littleover, Derby and formerly of El Oasis Andaluz, Parcela 376, Estapona, Malaga, Spain

TAKE NOTICE that an action has been commenced against you in the High Court of Justice, Chancery Division, CH 1990 N No.9500 by National Westminster Bank PLC, in which the Plaintiff's claim is for an Order for sale of shares charged to it by you in Seafield PLC and in Hazlewood Foods PLC.

And that it has been ordered that service of the Originating Summons in the said action on you be effected by this advertisement.

AND FURTHER TAKE NOTICE that you must within twenty one days from the publication of this advertisement, inclusive of the day of such publication , acknowledge service of the said Originating Summons by completing a prescribed form of Acknowledgement of Service which may be obtained on request from the solicitors whose name and address appear below, otherwise Judgment may be entered against you.

Messrs Wilde Sapte
of King's Cross House, 200 Pentonville Road, London N1 9NL

(Ref: AXS/189987)

Dated 24th October 1990.

Plaintiff's Solicitors

TELEVISION

The serial's serious debt to society

Owing to the shamefully offhand attitude of broadcasting administrators in the 1960s and '70s, many seminal television programmes have been lost forever. From David Mercer plays to *Juke Box Jury*, from *Till Death Us Do Part* to *Dixon Of Dock Green*, great swathes of material were junked or wiped and will never be available to posterity. However, lobbyists led by the British Film Institute have finally persuaded the Government to accept the idea of a national television archive and proposals will appear in the new broadcasting act. So, with luck, future generations will at least be able to see anything of significance from 1990 onwards.

When our grandchildren, or our great grandchildren, come to shoot their PhDs in 2050 AD, and they go to the archive to select clips, they should realise that although they may find many of the facts they want in news, current affairs and documentary programmes, if the zeitgeist is what they are after then they will need to turn to the drama serials. Nothing captures the spirit of the times with quite such accuracy and vividness (nor, judging by the effect of watching *The Quatermass Experiment* or the surviving *Dixon* episodes today, with such poignancy) as contemporary serial drama.

Watching a black police car come round a corner on two wheels and roar down a suburban street, with the little oval "Wolseley" sign on its bonnet lit up in the dusk, and its bell ringing as it passes a parked car – a Ford Anglia, a Morris Oxford – every 50 yards or so, you remember with a pang what a different world we lived in, such a short time ago. Of course the makers of that programme could hardly know at the time that it would be the illuminated "Wolseley" sign, the bell instead of an infernal siren, and those awesome parking spaces which would date the work so evocatively.

Similarly we cannot say for sure today what it will be about *Twin Peaks*, which began last night on BBC2, that will make it seem to our grandchildren to be so very much a product of its time, though it will probably *not* be those elements which seem so obvious to us. This is the serial made by David Lynch, director of such cult cinema successes as *Blue Velvet* and *Wild At Heart* who co-wrote the scripts with *Hill Street Blues* writer Mark Frost and then directed.

Last night's 90-minute pilot plus the first seven episodes tell of the investigation by FBI agent Dale Cooper of the murder of beautiful 17-year-old Laura Palmer in the little backwoods town of Twin Peaks. In the US the series was taken up with passionate enthusiasm by the chattering classes who saw it, seemingly, as a parody of such works as *Dallas* and *Peyton Place*. They revelled, moreover, in Lynch's off-the-wall humour and his interest in the sexy and the macabre. Perhaps the series will have the same sort of success here, though I shall be surprised if it attracts more than 2.5m viewers. (*Portrait Of A Marriage*, also on BBC2, began with 5m and fell steadily to 3m).

There are certainly pleasures to be had. Thanks to Lynch's lighting, which with its appearance of artificial light outdoors makes the whole of America look like an Edward Hopper painting, the screen is always interesting to watch. The acting is better than you would expect from *Dynasty* or *Falcon Crest*. Best of all, the humour is often built into the character, notably that of FBI man Cooper, a modern Sherlock Holmes whose powers of observation and deduction astound the yokels. "Looks like a Hog to me!" he exclaims, freezing frame on the video taken at the pic-nic on the day of Laura's death and identifying the make of motorcycle (Hog=Harley) reflected in her eyeball.

However, though this may certainly be a parody it is not, in social terms, pushed to the point of farce as were *Mary Hartman, Mary Hartman* and *Soap*. On the contrary, although *Twin Peaks* has fun at the expense of the *Dallas* type series it is actually more, not less, realistic. In *Twin Peaks* the garage man is having an affair with the lady at the diner, Laura has been dating at least two boys and having an affair with the psychiatrist, Leo is a wife beater, half the population snorts cocaine, there is a plot to raze the saw-mill and claim the insurance, local girls dabble in prostitution at One Eyed Jack's, and even the sheriff is carrying on with a Japanese widow.

Listed like that it may sound like the heaping of Pelion upon Ossa and yet, judging by what you hear from friends and read in the press, it is not such an inaccurate picture of what happens, albeit away from the public gaze, in small town America today. Even Nadine with the black eye patch, who devotes her life to perfecting the totally silent curtain rail, is less far fetched than appearances seem to suggest: the world is full of people with quietly desperate obsessions contained behind closed doors.

Given this tendency for television's contemporary drama serials to convey the true spirit of the times, what I find most interesting and occasionally depressing is the enthusiasm today for combining realism with extreme non-realism which sometimes topples right over into a particularly fey sort of mysticism. Long before television there was, of course, extensive precedent for this sort of thing; such a combination lies at the very heart of *A Midsummer Night's Dream*. So far as today's television dramas are concerned, it should, perhaps, begin to worry us at the point where it seems to be taking the place once occupied by religious belief. In other words, at the point where it begins to look remarkably similar to astrology and the other bits of supernatural mumbo jumbo which otherwise sane and rational people now seem so ready to take into their lives.

It may not be particularly important when the non-realism takes the form of wishful thinking as in the banking-and-bonking series *Capital City* which has cleverly de-yuppified itself for the recession. There is no longer a Porsche in sight, Sirkka is riding a bike, the new head dealer is not simply a woman but one who simultaneously represents umpteen ethnic minorities (Sylvia Roux Teng, no less) and all across the dealing floor they are going on strike against the wicked dumping of toxic waste by a client company.

Not quite the way life pans out at the average merchant bank? No, but probably no more unrealistic than BBC1's saga of Clydeside low life, *Your Cheatin' Heart*, which would have us believe that Glasgow cabs are driven by beautiful young women who spend their time on the radio delivering witty aphorisms at a speed which would baffle Oscar Wilde, and that Glasgow hamburger joints employ wistful female country-and-western groups whose songs are heard from beginning to end in respectful silence. The significant point in the work of writer John Byrne is his realisation that whatever the PR men may say about Glasgow being "the kulcher kapital" of Europe, for most young Glaswegians the cultural capital of the world lies nearer to Memphis or New York.

The series where we should at least note what is going on are those such as *Centrepoint* on Channel 4 and *Twin Peaks* itself, in which we are invited to treat telepathy, dreams, ghosts, and a lot of the other occult baggage brought down from the attic by hippies in the 1960s, as though it were just as respectable, just as useful, and just as dependable as rational thought. In the case of *Centrepoint* it may turn out that there are good concrete explanations for all the ooky-spooky stuff. However, having watched the first eight parts of *Twin Peaks* I fear that Lynch may be a true child of the *Star Wars* age ("Let the force be with you" and all that airy-fairy guff) and that he is perfectly happy to have his hero rely upon dreams for his deductions.

It is entertaining enough, and many would argue that man cannot live by bread alone and that all drama benefits from a metaphysical dimension. Nevertheless, I suspect that the more level headed great-grandchildren are going to find the necromantic elements in our drama serials very quaint and rather embarrassing.

Christopher Dunkley

Capturing the spirit of the times? Kyle MacLachlan and Michale Ontkean in 'Twin Peaks'

Extemporary Dance Theatre

THE PLACE

British modern dance is floundering, and, alas, growing only more British. Few people on the scene are making absorbing dance material, but there's simply bags of content around. give a second-rate British choreographer a break, and chances are he'll come up with more literary or play-acting ideas than steps. In these respects and others, Extemporary Dance Theatre's new production is very British indeed.

Aren't programme notes wonderful? They open up whole areas of new thought. *A Flaming Desire*, choreographed for Extemporary by Sean Walsh, is a two-act dance treatment of the Faust story. Well, the programme says so. And, though the Faust story is not unknown to me, I was amazed after the show to read the Faustian issues that Extemporary presumes that *A Flaming Desire* is concerned with.

The style is watered-down modernism, with a po-faced ensemble narrating things, sort of. It is some time before the unprepared observer can guess which soloist (Mark Bruce) might be Faust. Thank heavens for the clinching clue, when he produces a thick tome and consults it for two seconds. It took me an aged, however, till I realised that the mysterious female in full-length black veil (Joanne Frog) was actually Mephistopheles.

There's little attempt at realism – Faust's book, so briefly glimpsed, provides the most literal moment all evening - because Walsh is attending to higher matters, like mood. But what good is a mood, when you're still not sure who's expressing it, or why?

Inoffensiveness and good taste rule. Everything is awfully British. The movement contains some gestures, contractions, and angular positions, like Martha Graham's – but not, of course, too much so. Legs are often elegantly turned out - though not, of course, too emphatically. There are elements of jazz fluency and rhythmic surprise in the phrasing – nothing too extravagant, mind you. The eight dancers are equally adequate. The choreography renders them uniformly unmemorable. The music, which is live jazz topped up with electronic keyboard and corridors-of-time resonance, is modishly moody stuff from Trevor Jones's sound track for the Alan Parker film, *Angel Heart*, as arranged and supplemented by Stephanie Nunn. Tim Hatley's decor is a large metal framework that the cast reshape for each episode. When we see that it's a jail or a wall, we're grateful. But much of the time it simply adds to the choreography's obscurities.

It's depressing to write in these terms, for *A Flaming Desire* launches Walsh's new regime as Extemporary's artistic director. Monday's first night won some cheers, and it's possible that Walsh's choice of music, subject matter, and movement idiom will find supporters. But it made me itch to get back to any other version of *Faust*, and to see these dancers given greater challenges.

Alastair Macaulay

Five Guys Named Moe

THEATRE ROYAL, STRATFORD EAST

Take a singer, a songwriter or a lyricist of note, wrap the flimsiest of books around the finest of their works and you can generally guarantee some sort of success. At least one element in that notoriously tricky discipline, the musical, is tried and trusted.

Clarke Peters' tribute to the black music man Louis Jordan refreshingly forsakes the usual biopic formula for out-and-out fantasy: a dead-ender twiddles his wireless knob to find himself confronted, genie-like, by Five Guys Named Moe – a quintet of sassy showmen whose advice, tangential as it is to Nomax's life crisis, is fired direct from the Jordan canon.

The choice of subject is inspired, since Jordan is one of those figures who casts a shadow over the music of the 20th century without one knowing exactly whose it is. Born in Arkansas in 1908, he was an all-rounder responsible for a stream of hits from the 30s onwards, which earned him a place in the pantheon of rhythm and blues, landed by James Brown as well as Bill Haley and Chuck Berry.

He has left his mark on them all, but despite his seminal influence, preferred to regard himself simply as an entertainer. So it is only right and proper that *Five Guys* is simply entertainment – albeit framed by such heavyweights as "Is You Is Or Is You Aint" or "What's the Use of Getting Sober", which weigh in with a wit and a whimsicality that would knock most of his successors out cold.

Alastair Muir

Clarke Peters, Kenny Andrews, Peter Newton and Paul J. Medford

A tight all-male cast, under the direction of Charles Augins, prove that old-fashioned production values are not dead at Stratford East. Clarke Peters himself is smooth as velveteen, except when called upon to supply comic strip falsetto for a hilarious "Nobody Here But Us Chickens", while the rendition of the raunchy "I Like 'Em Fat" by the diminutive Paul J. Medford, of *EastEnders* fame, typifies the cheek of a show which makes no pretence to anything as mundane as plotting or book.

What it does give us, brilliantly, is a taste of Jordan's versatility and showmanship, slickly choreographed and *charismatically executed* by five guys plus one from a growing community of black performers capable of putting the swing back where it belongs. The audience conga'd in the aisles.

Claire Armitstead

Stand up America!

QUEENS THEATRE

This must have been the strangest London first night in a long while. Invited for 8.00pm, we found that *Stand up America!* had been postponed till 8.30. The programmes had still not come; neither, it seemed, had the comics.

Finally the programmes arrived and the show got under way at around 8.40, and with a British stand-up comic, not listed in the credits and called something like Jacky Deedes, coming on first. He said that most of his jokes had been based on Kuwait, but that something had happened.

For a moment, one thought he was serious: the Americans had finally invaded Iraq and the comics had been diverted, along with the aircraft carrying the programmes, to entertain the troops in case they're not home by Christmas.

No need to worry. Shortly after 9.00pm one of the Americans appeared. This was Roger Kabler, who takes off American movie and television stars. He does Frank Sinatra singing from *Phantom of the Opera* broadly to the tune of "Strangers in the Night" and the Robert de Niro comedy show, which seems largely to consist of the line "How yer doing?"

I think that it was Kabler, though it may have been the next one – Billiam Coronel – who said that he thought the show opened next week. Certainly it was Coronel who asked what the doormen's union does when it goes on strike. They just stand in front of your door. Also, "Is it wrong to smoke when you're on a bicycle in a health club?" "I just pretend I'm going down hill."

The Gulf is plainly on everyone's mind. The British comic says that Mrs Thatcher started it off by going to Helsinki and getting the Finns involved. One of the Americans says that they just need some kind of show of force that works. "We sent 24,000 troops into Panama (or was it Grenada?) and Noriega drove himself to the Pope's house". Maybe the tension is getting them down.

Possibly, too, Monday night was an aberration. *Stand up America!* is due to run at the Queens for six weeks with the comics changing every Monday if they get the dates right. It is billed as an American invasion, but is still a bit of a try-out with the comics trying to establish what a British audience laughs at.

Actually, I thought it was quite funny. As an invasion, it reminded me of President Carter's attempt to get the hostages out of Iran. Perhaps that was part of the joke.

Malcolm Rutherford

BBC Symphony Orchestra

ROYAL FESTIVAL HALL, RADIO 3

The BBC Symphony's current season is its 60th, though the diamond jubilee is being marked in a distinctly subfusc way. The exact anniversary fell on Monday: on October 22 1930 in the Queen's Hall, Adrian Boult conducted the fledgling orchestra, drawn from the great and the good among London's freelance musicians, in a programme that began with the *Flying Dutchman* Overture, and led via Saint-Saens' Cello Concerto and Brahms' Fourth Symphony to the evening's highlight, the Suite from Ravel's *Daphnis et Chloé*.

In what seemed a determined effort to avoid any kind of spurious backward glances the present-day BBBCSO and its current chief conductor Andrew Davis offered an all-Russian, rather atypical programme of Stravinsky, Prokofiev and Rakhmaninov.

Davis's special strengths in late-romantic and early 20th-century repertory did not quite adapt themselves to these works; all was realised with the maximum of efficiency and accuracy, but nothing more.

While the carefully purled phrasing of the woodwind and neatly dovetailed strings were admirable in Stravinsky's Symphony in C, the counterpoints of the slow movement teased out adroitly, the rhythms slotted into place, there was a bluntness, a smoothing-over of contrasts which kept the performance earthbound. And in Rakhmaninov's Symphonic Dances too it was easy enough to simulate velveteen surfaces, so that the plushness could remain strictly on the surface.

There is an element of sombre pessimism running through all late Rakhmaninov, even beneath these anodyne display pieces, but that Davis refused resolutely to seek out. It was unfortunate that the Japanese violinist Kyoko Takezawa encountered the orchestra in such over-relaxed form.

She did what she could to raise the temperature, especially in the last movement of Prokofiev's Second Violin Concerto where her double and triple stops were convincingly combative; in the end, though she left the same impression as every other element of the evening, of super-competence and plain predictability.

Andrew Clements

Janet Jackson

WEMBLEY ARENA

Janet was the ninth child to bless the union of Mr and Mrs Jackson and the last. There was never much chance that she would end up as a quantity surveyor but even so the resemblance to big brother Michael is quite eerie. She has the same baked Barbie Doll face; the same ethereal voice programmed to squeak out platitudes; the same gymnastic approach to dancing which makes it seem part of a SAS daily fitness routine.

She also has Michael's love of spectacle. Her lavish, high energy show starts with a goods lift cranking up the star (hidden behind a screen) from the lower depths. The wraps come off and there, in black frock coat and generously filled tights, is Ms Jackson, ready to lead her dancers into an air punching, stage pounding, body breaking performance which would get maximum points from Angela Rippon in the world final of *Come Dancing*.

Against a set which looks like a derelict abattoir Janet Jackson jerks out her social message which seems to advocate self control and human brotherhood rather than wasting time on the slow foxtrot and drug pedalling. To drive home the point the dancers act out little cameos of mean street life, with Janet giving the dealers what for, while a screen projects all those nasty words like "Prejudice", "Ignorance", Bigotry" and "Illiteracy", which we are encouraged to reject with resounding "Noes".

The noise level is high but the music, or rather the musicians, are kept well under control, huddled behind a lowering septic tank at the rear of the stage. The guitarists, dressed like IRA paramilitaries, are allowed out once to fire off chords on "Black Cat", but this is basically performance art, aimed at the eyes rather than the ears. There are also well merited doubts as to whether Ms Jackson can really be getting her tonsils around some of the songs during the more strenuous parts of her work out.

Apart from the penchant for black costumes and a*Metropolis* style set, and the lack lustre quality of some of the material, this is a thoroughly diverting spectacle. It hardly sustains its philosophical pretensions, (its some time since I've seen the message "We are in a race between education and catastrophe" flashed around the auditorium at a pop concert) but for teasing sexuality, precision engineered dance rock, and animal high spirits it knocks the latest road shows by M. Jackson and Prince for six.

International Association of Jazz Schools

The International Association of Jazz Schools, founded in April 1989, has established its secretariat in the Hague, Holland. The aim of the organisation is to establish a network of jazz schools inside and outside Europe.

Futher details from the IAJS, Juliana van Stolberglaan 1, 2595 CA, The Hague, Holland.

ARTS GUIDE

October 19-25

THEATRE

London

Jeffrey Bernard is Unwell (Apollo). James Bolam is the alcoholic journalist who embodies a Falstaffian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse has stitched a fine play, the season's highlight, from Bernard's own writing, Ned Sherrin directs. (437 2663).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn. (839 5972).

Burn This (Lyric) Blistering performances from John Malkovich and Juliet Stevenson in Lanford Wilson's play about the mismatch of opposites. (437 3686).

Singer (Barbican). Anthony Sher in Peter Flannery's modern Jacobean tragedy that reflects a darkly comic view of Britain since the second world war. (638 8891).

Shadowlands (Queen's). Weepie about the love affair between crusty Oxford writer C.S. Lewis and the cancer-riddled American poet Joy Davidman, which pushes Nigel Hawthorne and Jane Alexander into the awards stakes. William Nicholson's play is irresistibly emotional. Elijah Moshinsky's direction is superb. (734 1166/439 3849).

Absurd Person Singular (Whitehall). Revival of early Ayckbourn comedy, directed by the master himself, about three couples at Christmas in three kitchens over three years. Moira Redmond, Richard Kane and Lavinia Bertram on fine form in a production which confirms Ayckbourn's early bleakness (071 867 1119). Extended until January.

New York

Falsettoland (Lucille Lortel). It will be known as the musical about Aids first hitting New York but it goes much further than that, showing the effect on a larger circle of people, who include a boy having a Bar Mitzvah and his parents, all three of them (924 8782).

Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film to shake the bones of this inert depiction of lives criss-crossing in an elegant, but somewhat random setting (246 0102).

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama. (239 6200).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this transfer from London (239 6200).

Gypsy (St James). This 30th anniversary production is a reminder of the heyday of the American musical with memorable tune after memorable tune, as well as a forceful plot about the ambitious stage mother who encourages her daughter even into burlesque. (246 0102).

Chicago

The Iceman Cometh (Goodman). The Goodman opens its new season with a revival of vintage O'Neill starring film actor Brian Dennehy. Ends Nov 4 (443 3800).

Tokyo

Kabuki. Kabuki-za (541 3131) this month features two actors who have attracted new audiences to kabuki. The star of the 11am show, Ennosuke, specialises in quick-change routines and spectacular stage effects. At 4.30pm the gifted *onnagata* (specialist in female roles), Tamasaburo, stars in a love story about a priest and a geisha. Meanwhile, at the National Theatre (265 7411), the rarely-performed *Kagamiyama Sai kogaji* is being given (performance times vary). Both theatres have excellent earphone guides in English.

The English Shakespeare Company, paying a return visit to the theatre they opened two years ago, this time as part of the UK 90 Festival. Michael Pennington leads the cast in *Coriolanus* and *The Winter's Tale* (in repertory). Tokyo Globe Theatre (360 1151).

Phantom of the Opera (in Japanese). This highly successful production is a carbon copy of the London original, with the added advantage that one can ignore the banal lyrics, since they are in Japanese! Shimbashi Ebujoh Theatre (797 9601).

Fiddler on the Roof (in English). Topol once again takes the lead role in the musical that made him famous 20 years ago. Kan'i Hoken Hall, Gotanda (477 7625).

FINANCIAL TIMES

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A disservice to the Gatt

FARM REFORM is not the only area where the Uruguay Round of multilateral trade negotiations is in danger of going off the rails. Another item that is posing great problems is the attempt to liberalise the $600bn-a-year international trade in services. Consequently, negotiators have been given just two weeks to resolve fundamental disagreements over how 10 basic service sectors can be incorporated in the proposed General Agreement on Trade in Services (Gats).

This time it is the US that must take the lion's share of the blame. After pushing vigorously for services to be included in the Uruguay Round, Washington has got cold feet. It is seeking special treatment for sectors that have strong political clout, such as telecommunications, aviation and shipping. The immediate result of this approach has been to open the door to similar special pleading by others. The European Community, for example, now wants favoured treatment for broadcasting and inland transport.

Yet a worthwhile liberalisation must cover all service industries. Some of the biggest distortions in visible trade have arisen where the basic rules of the General Agreement on Tariffs and Trade have not been applied, notably in farming and textiles. Similar special arrangements for the services sector would nullify much of what the Uruguay Round negotiators in Geneva are trying to achieve. The benefits of liberalising trade in services will remain elusive unless all concerned, including the US, are prepared to share equally in the pain of adjustment.

A perfectly reasonable objective for the Uruguay Round would be agreement on a basic framework of principles that are to be applied to the services sector, backed up by a standstill on protection and some real measure of initial liberalisation. This, indeed, is what the US says it wants, but it will remain out of reach if exemptions become the norm, because the Bush administration lacks the spine to stand up to special interest groups at home.

Only in isolated cases can a derogation from multilateral principles be acceptable. The Most-Favoured-Nation (MFN) rule, whereby trade concessions given to one country must be available to all, is the cornerstone of liberalisation.

Admittedly, it cannot be made to apply in the short run to aviation and shipping, because these sectors function under a network of bilateral arrangements under the Chicago Convention and the UN Liner Code. Derogations from the MFN rule that are applied to these sectors should, however, be limited in time. They should not be extended at a whim to other sectors, such as telecommunications. It should be made clear in any Gats that MFN principles are to be applied as soon as possible.

The US attitude to service liberalisation makes the doctrinaire purity of its early stance ridiculous. Indeed, this development betrays a general flaw in the US approach.

Lacking a natural role in government, the US Trade Representative's Office has played into the hands of lobbyists who define policy from the vantage point of their own narrow interests. The result – also manifest in other areas, such as textile reform, anti-dumping and countervailing duties – has been to make US trade policy reactive, incoherent and self-contradictory.

Washington's behaviour in the services negotiations suggests that it is already fixated by the problem of reconciling its various lobbies with one another so as to ease the passage of the final result of the Uruguay Round through Congress. Too little has been done to persuade Americans of the overall benefits of trade liberalisation. Too much attention has been paid to forestalling the potential opposition of those who would pay the price.

This is not the stuff of which leadership is made. Even without the particular problem of farming it would be enough to put the Uruguay Round in jeopardy. The world at large could be forgiven for its reluctance to play along with a game in which the US makes all of the demands and virtually none of the concessions.

Family policy in disarray

THE Thatcher government has had a clear policy on child benefit since the 1987 election. It is that a universal payment to all mothers regardless of a family's means is wasteful. The government has thus frozen the benefit while modestly increasing the budget for family credit, a means-tested benefit for low-income families. The aim has been to restrain welfare spending while continuing to help families in need.

Mrs Margaret Thatcher now appears to be having second thoughts about this policy, which is unpopular on Tory backbenches. Trailing in the polls and embarrassed by the defeat at Eastbourne, the government is anxious to avoid policies which will weaken support in marginal constituencies. But the rethink also reflects a broader debate about family policy within the Party. Many Tories argue that it is hypocritical to claim to be the "party of the family" while freezing a benefit which is the only general recognition within the tax and welfare system of the costs of rearing children. They say traditional families deserve more, rather than less, financial support.

The child benefit debate is divisive because it raises fundamental questions about the role of the state. Advocates of targeting believe the government should intervene only to provide a safety net for the disadvantaged. They see no reason why taxpayers, many of whom are childless, should be obliged to support the children of middle- and upper-income families. The logic of this view is that child-rearing is an individual choice: adults should have children only if they are willing to meet the costs. On an over-crowded planet, subsidies for children are seen by some as perverse.

Different premises

Opponents of the freeze start from quite different premises. The government has a responsibility to promote the overall health of society. Its commitment to universal free education for 5- to 16-year olds proves that it has a general interest in children's welfare. On this view, the perplexing question is why the state does not do far more to help families with young children. Britain has one of the worst records in Europe for the provision of kindergarten education and child care facilities; yet research suggests that individuals' life chances are strongly influenced by the quality of care in their early years.

Advocates of this broad role for government regard the regular uprating of child benefit as a minimal requirement: a base from which to construct more ambitious policies. As a replacement for child tax allowances, child benefit is seen as a reflection of the lower taxable capacity of families with children.

Greater efficiency

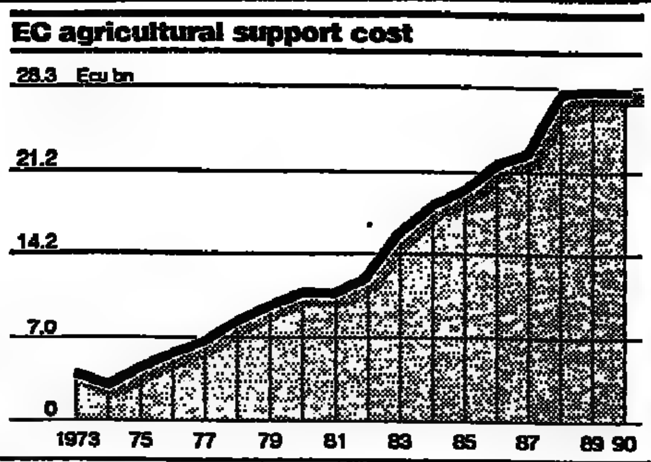
But it is more efficient than a tax allowance because it is provides regular cash in the hands of mothers, is of equal value to all taxpayers, and provides a bedrock income for families who otherwise rely on income-related benefits. It scores over means-tested benefits because it does not impose work disincentives and has a near 100 per cent take-up rate compared with only about 55 per cent for family credit. The main disadvantage is that it is costly: £4.5bn secures a weekly benefit of only £7.25 per child.

In the short run, it would be inconsistent for the government to cave in to pressure and either uprate child benefit or indulge in gimmicks such as a specially high rate for the under-fives (who cost less to support than older children). These would be panic measures in the face of electoral unpopularity. The targeting strategy implies a continued freeze coupled with more generous funding of family credit for low-income families.

In the longer-term, the government must decide the extent to which it is willing to intervene in support of families and children. If its aim is a safety net, it should persevere with the targeting strategy. Even then it would be more efficient to withdraw child benefit at a high rate through the tax system than to rely on old-fashioned means-tested benefits such as family credit.

If ministers accept the case for a broader role for the state, the future of child benefit must be considered in tandem with other policies affecting families, such as subsidies for child care and schooling for the under fives. One thing is sure: the government cannot muddle on for much longer without a coherent policy on the family.

IGNAZ KIECHLE



Farm politics is grimly back at the top of the EC agenda, reports **Tim Dickson**

Realities overtake the rhetoric

For almost four years now impassioned pleas to slash trade distorting farm subsidies have echoed around the world.

The US at one point called for the abolition of all supports by the end of the decade; the European Community has repeatedly affirmed that "substantial" and "progressive" cuts should be made; while developing countries which stand to gain most from improved access to rich markets applauded vigorously, if a shade sceptically.

This month the realities have finally overtaken the rhetoric.

Faced with the European Commission's relatively modest proposal to reduce farm subsidies by 30 per cent over the 10-year period 1986-96 – modest, say critics, because 10-15 per cent of the target has already been achieved and because countries such as the US and Australia are demanding much more – EC farm ministers have ducked and weaved. Finally, they seem to have set their faces firmly against endorsing such a far-reaching move.

Three meetings in two weeks have ended in deadlock, not to mention separate but equally ill-fated attempts by EC foreign and trade ministers to do the deed. Unless a so-called "jumbo" meeting of farm and trade ministers combined undergoes a Pauline change of conviction in Luxembourg on Friday the issue looks certain to end up over the weekend on the plates of EC heads of government at their special summit in Rome.

After more than two years of obscurity outside Brussels the politics of Community agriculture is grimly back at the top of the EC agenda.

What this means for the future of the international trading system, given Washington's determination to tie the farm issue to a successful outcome of the Uruguay Round trade talks as a whole, has already been darkly predicted. What a continuing impasse means for enthusiasts of deeper European integration is also being seriously, if reluctantly, contemplated.

But many people, even some of those supposedly close to the Brussels corridors of power, are still baffled as to why the EC's attachment to agriculture remains so strong and why Germany, Europe's most successful industrial nation, should so conspicuously be leading the attacks on Common Agricultural Policy (Cap) reform.

It is a persistent Anglo-Saxon myth that the Cap came into being as a dastardly, if skilful, device for protecting inefficient French peasant farmers. There certainly were – and still are – French peasant farmers aplenty, but as the respected specialist magazine Agra Europe put it recently EC agriculture policy at the outset was "the product of an uneasy post-war alliance of French agricultural expansion with the German desire for security".

The initial problem for France was actually that of success. With their geographic and climatic advantages French farmers were starting in the 1950s to turn out more cereals and dairy products than could be absorbed either domestically or through exports. It was also clear that these same producers were up against formidable competition from the US, a country determined to put its huge capacity in food output to good use in world markets. The French, in a nutshell, could only be effective players in this game with export subsidies they themselves could not afford.

The Germans, meanwhile, were prepared to enter an alliance in which they would be the principal paymasters partly as a *quid pro quo* for their own industrial ambitions. But Bonn also had its own and very different agricultural self-interest.

Faced twice in 40 years with the spectre of mass starvation, building up the countryside and developing rural infrastructures became as much a target of German policy in the post-war years as increasing food production. Burdened with relatively weak farm structures made worse by the loss of its traditionally rich farm areas to the communist east, – German agriculture has come to fulfil an important social and political function with the emerging Cap as its principal weapon of protection.

Seen from European governments' point of view, the main components of the original Cap seemed a sensible and inexpensive way of building up food security. These involved public "intervention" buying, a variable levy system to keep out cheap imports and, later, export subsidies to bridge the gap between the world market price and the higher European price. At the outset the potentially harmful effect upon the consumer of a system which operates by raising the price of food to protect the less efficient domestic producer from the more efficient overseas producer did not enter into the argument. Provided that price supports were reasonable the exchequer costs could surely be kept under control.

Commentators now argue that the damage was done in the late 1960s and early 1970s when today's common pricing policy was introduced. In principle it was agreed by the six members states that prices would come down to the level of the most efficient European producers – ie: the French, whose prices in the mid-1960s were 20-25 per cent lower than those in Germany and the Benelux – but in practice this never happened.

Intense German lobbying ensured not only that prices came up to the high level they themselves were enjoying but that efficient French farmers were given an incentive to produce. The stage was therefore set for the surplus-producing, budget-bursting farm production of the late 1970s and 1980s and successive financial crises at EC summits.

Bonn's consistently fierce opposition to agricultural price cuts significantly reflects a markedly different conception of the Cap and its possible development than that held by most of its Community partners.

Mr Ignaz Kiechle, the German agriculture minister, says that the way to solve the problem of surpluses is to limit the output of individual producers either through quotas (currently applied to milk) or through a more effective "set aside" policy for taking cereal land out of production. In these ways, he believes, the status quo of high support prices could be maintained while surpluses and the high budget costs and international opprobrium caused by dumping them on world markets can be avoided.

Mr Kiechle's vision might be more alluring if it found favour in other national capitals. The fact is, however, that it is not just the free trading camp in the Council of Ministers – openly led by Britain – which rejects this approach. Controlling production as a means of keeping up prices runs counter to the whole trend of French farm policy development over the past 20 years.

French support for the German stand thus appears to many to be no more than skin deep, motivated as much by the need to keep Mr Helmut Kohl on the fast track to Economic and Monetary Union (Emu) as by wholehearted determination to frustrate international farm reform and reassure its own farm lobby. When the crunch finally comes the relatively efficient French cereals industry is as well placed as any in Europe to take price cuts on the chin.

If underlying structural and political realities explain Bonn's high-profile stance in the Uruguay Round, those seeking a switch in European policy can also blame poor timing.

Many agricultural markets, notably in the livestock sector, are currently in disarray. The reasons are various – falling meat consumption through dietary change and health scares like BSE, the loss of export markets in the Middle East, temporary distortions due to imports from what was East Germany, and continuing high levels of production notwithstanding the last attempts at reform in 1988.

As seen from the farmers' side of the gate, the current EC proposal is piling insult onto injury following the automatic price cuts triggered in the last couple of years by the cereals "stabiliser" and the falling market prices of sheepmeat and beef. "We estimate incomes will be down by about 17 per cent in 1990," says the Irish Farmers Union. German officials say their farmers face the same depressing prospect.

Similar pressures, meanwhile, are starting to renew anxiety about the impact on the EC budget, almost 60 per cent of which (about Ecu26bn this year) goes on agricultural support – although EC farm spending both this year and next is, however, likely to remain inside the "guideline" laid down in 1988.

If the current plight of farmers and the absence of immediate budget difficulties tend to limit the EC's reforming zeal, so does the apparent lack of a clear and workable alternative to price support for helping EC farmers.

Economists argue that the only long-term solution is to make direct payments to producers which do not act as an incentive for the inefficient to increase their output and which do not therefore lead to the use of trade-distorting export subsidies. According to this theory, farmers should be paid for their role as guardians of the countryside.

Farmers are suspicious of this approach for at least two reasons. One is that they (or the larger of them) instinctively shy away from the image of "park keepers" or social security recipients.

The other is that reshaping the Cap from a system based on price support to one which makes payments direct to the producer is a deceptively symmetrical idea. Everyone in Brussels – and indeed Bonn – knows that a substantial part of the return to producers comes through higher consumer prices as things stand. Reducing internal supports means a bigger proportional cut in farm incomes than it does in savings to the EC budget.

None of this is to say that the threat to the Cap in its present form is not real. It comes from several directions – the 1992 single market, the likely extension of tariff and other concessions to the European Free Trade Association and the former Comecon bloc for political reasons (a trend which is bound to erode the idea of Community preference), and progress towards Economic and Monetary Union, to name but a few.

The conclusion which can be drawn from this month is that change is a long-term process. The Uruguay Round therefore may do no more than nudge the process of reform forward.

Time working against German lobby

Chancellor Helmut Kohl is virtually assured of victory in the December national election but he is still taking no chances with the legendary power of the German farming lobby. Agriculture and forestry accounts for only 1.7 per cent of west German Gross Domestic Product and employs only 3.5 per cent of the working population. But in a four party, coalition-based, political system, movements of two or three percentage points can change the face of politics, writes David Goodhart.

Farmers are by tradition staunch Christian Democrats (CDU) and merely have to abstain in significant numbers for whole states to fall to the Social Democrats.

The German Farmers' Association organises the owners of the 650,000 mainly small farms like a disciplined political party. Mr Constantin Heereman, the president, is a CDU deputy in Bonn and the association is over-represented in the Bundestag.

But the voting arithmetic and tight organisation are arguably less important than preserving the conservative, romantic view of the yeoman farmer for the urban population. Chancellor Kohl himself as the former leader of a mainly rural state, Rhineland-Palatinate, knows the emotional and electoral importance of the farmer.

As recently as 1950 about 25 per cent of the workforce was on the land, which means that a large number of Germans have direct or indirect experience of farming.

The aim of the 1955 Agriculture Law which states that those who work the land should not be disadvantaged in relation to industrial workers is thus taken seriously.

About half of all farmers, especially those in the south of west Germany, are now part-timers; many even have full-time jobs in factories. Official statistics show that the average farm income is DM 40,000 a year (one-third is subsidy), about 20 per cent below the industrial average.

There is also widespread distaste for intensive-farming. A Bavarian government brochure opposes "a purely capitalistic agriculture" since it leads to an "ecologically unstable, monotonous and disagreeable countryside", a point with which the Greens agree.

Time is working against the farming lobby for the integration of the much larger east German farms seem certain to loosen the political hold of west Germany's small-holders.

But in the short-term the government seems to feel that east Germany's integration problems make it imperative to maintain EC subsidies.

OBSERVER

Tonseth sails into London

■ Just two years after moving from Norsk Hydro to become a senior executive of Norway's Kvaerner, Erik Tonseth, aged 44, is in London to put another piece of his aggressive expansion policy into place. He became president of the group last January.

Today Tonseth and his finance director, Jan Magne Heggelund, aged 41, will submit a formal application from the Kvaerner engineering and shipbuilding group for a full listing on the London stock exchange. He will also be telling the institutions during his visit that the group, which had a turnover of £800m last year, is on course for £1bn this year.

Kvaerner, which has been building ships since 1814, recently has been transformed by young, tough management. Last summer Diderik Schnitler, at 43, thought it worthwhile to quit his job in the Norwegian government, where he was deputy industry minister, to become executive vice-president in charge of Kvaerner's shipbuilding side. Another outsider, Olav Furnes, aged 47, joined the group this year from Det Norske Veritas to run the engineering arm.

The recruitment of outsiders to senior jobs marks a major policy change for a group which has traditionally tended to promote from within.

Within the last six years the group has also become the largest Norwegian employer in Britain by buying 13 businesses which now employ more than 3,000. They include the old Fairfield shipyard on the Clyde, now renamed Kvaerner Govan, which has an order book worth £150m – the highest in the yard's history.

Kvaerner has clearly found the price for buying its way into British shipbuilding and engineering a reasonably attractive one. Will Tonseth take the process a step further by making an offer for the Birkenhead yard of Cammell Laird, now on the market? Sources close to him are inclined to believe he won't.

The London listing is intended by Tonseth primarily as a means to broaden the group's shareholder base. It will be followed by an application for a listing on the Stockholm stock exchange.

The readier access to London's capital markets that the London listing will bring probably will not come amiss either to the Oslo-based group.

Water ways

■ Take the little local difficulty of a burst water main in south Paris. The pipe is identified on a computer map. Things start happening. An automatic telex is sent to the fire brigade to advise them of any fire hydrants out of of action. Sensitive water customers, such as schools, are notified. Meanwhile, the location of the burst is pin-pointed by the computer within inches.

Life is different in London. My Westminster street is dug up by the gas, electricity, water, telephone, and cable television utilities so often it could be a vegetable garden. The workmen say they spend their lives looking for faults on a hit-and-miss basis among the underground spaghetti.

The £8bn turnover Lyonnaise Des Eaux Dumez water group, which moved into the British market by buying Essex Water and East Anglia Water Company, together with two north-eastern water companies Sunderland and South Shields, and Newcastle and Gateshead, has just formed a new company called Eurecart to sell "geographic information systems" to the British utilities and local authorities.

They are computer data bases and programmes which enable an underground fault to be found as simply as that Paris water burst. While Eurecart has yet to win its first customer (a typical system will cost between £200,000 and £1m) Essex Water has installed one to show what it can do.

David Knight, who is business manager for Lyonnaise water developments in Britain, says he sees the biggest market for geographic information systems as the local authorities. "They urgently need geographic information to plot their underground services, also to keep track of their assets on the surface including street lights, parking meters, and other street furniture".

"I've frozen my poll tax payments".

Desert lions

■ France is being regarded with sourness by its western allies in the Gulf following President Mitterrand's divisive suggestion that the world should insist on western-style democracy in a liberated Kuwait, instead of simply reinstating the Emir.

But the French Embassy in Bahrain has at least provided some amusement by providing its diplomats with walkie-talkies and code names in case of emergency.

The cultured Gallic envoys are now referring to each other by such names as "Colossus of Rhodes" and "Lion of Nemea".

Althusser

■ The collapse of the communist regimes of eastern Europe might seem to leave little intact of the life's work of Louis Althusser, the veteran French Marxist philosopher, who died this week of a heart attack, at the age of 72.

But Althusser's life had already been shattered ten years before the Berlin Wall crumbled, when, in a fit of depression, he strangled his wife.

His attack of insanity, and the tragic consequence, has tended to overshadow the memory of the philosopher who for years dominated the ideological debates of the French Communist party, and who inspired a generation of left-wing thinkers and teachers.

From his professorial chair at the Ecole Normale Supérieure in Paris, Althusser led a far-reaching revision of the works of Karl Marx, notably in "For Marx" and in "Reading Das Kapital."

In 1976, however, he left the communist party after a bitter attack on what he saw as its drift to the right. He objected, particularly, to the abandonment of the principle of the dictatorship of the proletariat.

The complaint seems ironic today. The French communist party now remains almost alone in the world in not seeing the need to turn over a new leaf.

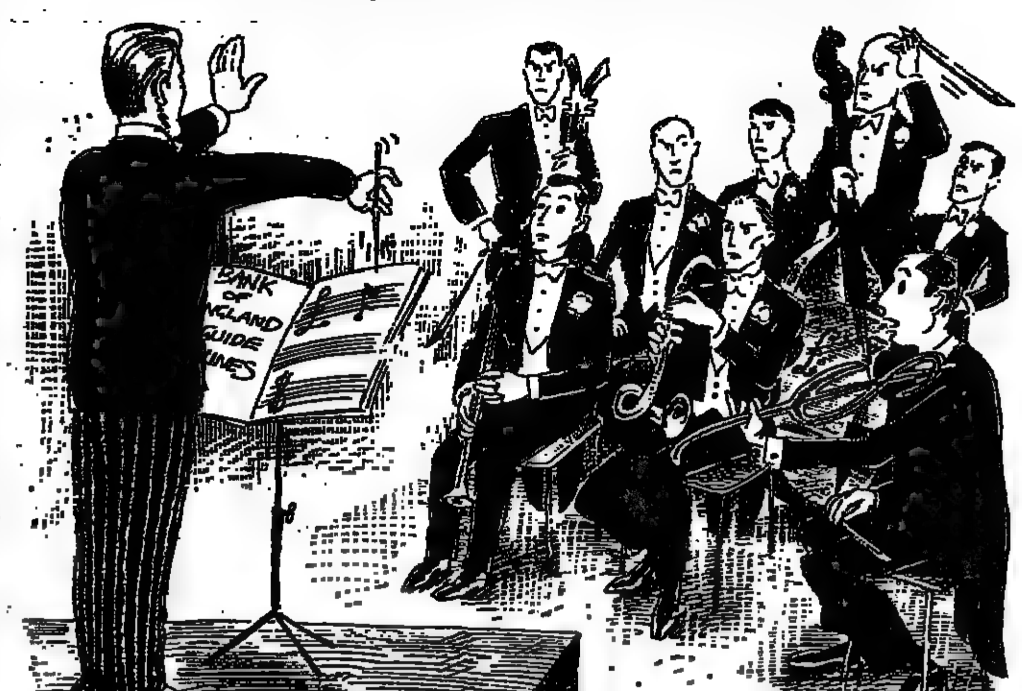
Swallow that

■ Short-termism makes ever greater strides.

Where other restaurants have a soup of the day, the Grosvenor House hotel coffee shop in London now has a "soup of the moment".

Ruffled feathers in the City

David Lascelles on a set of bankers' guidelines for dealing with troubled businesses



The air of calm and civility which the London banking community likes to preserve has been ruffled in recent weeks by an unusual squabble within its ranks.

The high point came when a French banker accused the Bank of England of "acting like the Pope" by trying to tell foreign banks how they should conduct their business – a charge which the Bank vigorously rejected. This public set-to and other impolite rumblings made bankers tut-tut with embarrassment. Many of them now claim that the point at issue has been vastly exaggerated – or even if it has not, that the press is not the place to debate it.

"The last thing we need is for the banking community to wash its dirty linen in public," said one banker last week.

What has raised feelings to this pitch is an initiative by the Bank of England to get agreement on how banks should handle companies when they get into difficulty. This is a laudable enough objective which few bankers contest. The problem arises over how it should be achieved because it touches on highly-sensitive issues to do with the role of the Bank of England, on relationships between banks and their customers, and on whether foreign banks "do their bit" when the going gets tough.

The Bank launched its initiative last May. It could see a recession looming, but it also knew that there had been big changes since the last dark period in the early 1980s. Intense competition had weakened traditional relationships between bankers and their customers, and the greater complexity of the financial markets meant that companies had many more bankers, and accepted credit in new forms, some of them not even on the balance sheet. In this tougher world, the fear was that bankers would be quicker to cut and run.

The Bank says it wanted to revive the City culture of days gone by when banks stood by their clients if they got into difficulty. It needed to establish "rules of the game" not just for foreign bankers who might be unfamiliar with UK practice, but also for UK bankers who had never lived through a recession. The phrase "the London approach" was coined to give it a feeling of community and tradition.

But another of the changes that has happened in the last 10 years is that the role of the Bank of England itself has been transformed from the City's mother hen to a more distanced official supervisor. This leaves it less well placed to influence the way bankers behave. Bankers get very prickly nowadays if they think the Bank is trying to interfere.

Sensitive to these feelings, the Bank tried to get the initiative going from the back seat. After four months of consultations it produced a draft document which it stressed was not its own but a synthesis culled from its discussions. The draft was circulated, not under the Bank's name, but under that of the City's various banking associations.

Its main point is that it is in everyone's interest – the bankers' and the company's – to prevent a company going into receivership. More can be achieved if creditors are organised into a group with a clear leader than if everyone tries to grab what he can. There should be an immediate standstill while the position is assessed and information is sent to all creditors. If more money is needed, existing creditors should advance it *pro rata*. None of these things are specially controversial.

Mr Sidney Shore, general manager of corporate banking at Lloyds Bank, says: "There is nothing new in this. The Bank is dusting it down and saying to the new players: 'this is how we have historically done it; this is how we can save companies.'"

For the majority of bankers, the main regret is that a formalisation of the London approach should have been necessary at all, though its virtues were highlighted when Polly Peck International ran into trouble last month. PPI had 60 bankers and no clear leader among them. The meetings were, according to one banker there, chaotic at times.

A number of foreign bankers had the feeling they were being lectured to

But the guidelines did not go down so well with foreign bankers, some of whom felt they were being lectured to and forced to do the bidding of the big UK clearing banks. Some of them also felt that their own traditions of helping companies were more developed than those embodied in the London Approach.

The foreign banking community was particularly sensitive because of accusations that have circulated recently about their lack of loyalty in times of stress. The problems that Eurotunnel had obtaining refinancing from its Japanese bankers this summer, and the fact that four foreign banks almost tipped Laura Ashley into receivership had exposed some nerves.

The Bank of England has strenuously denied that its initiative is aimed against foreign banks. Mr Ben Brittain, the chairman of the Foreign Banks and Securities Houses Association in London, says he has tried to reassure his members. "People who think that these guidelines are instructions from the Bank of England fail to understand how the City of London works," he says. The issues are complex, but he is willing to work with the Bank to make the guidelines acceptable.

Mr George Ellis, who heads the American Banking and Securities Association of London, the trade group of US banks, says: "Any responsible banker would accept them."

But this has not stopped some foreign bankers, particularly the French and the Italians, from seeing the London Approach as a Bank of England inspired move to reinforce the dominant position of the UK clearing banks. Although there is no specific reference in the draft to the clearers, the fact that it says that "a lead bank should have sufficient staff and experience for this task" is a clear enough indication, they think, that only a clearing bank can play that role. In reality, foreign banks are often the biggest lenders to UK corporations.

If only the UK set up a system along French lines, they say, where the central bank keeps a central register of all corporate borrowings, banks could keep a much closer eye on their clients' finances and prevent trouble earlier on. But the Bank of England says this idea has been considered many times and would be unworkable in the very different British context.

Some continental bankers now want to reinforce their objections by pressing ahead with another plan – to create a new association of European Community banks in London. Their argument is that when the single market is established at the end of 1992, all EC banks will come under the same regulatory regime, and should therefore organise themselves as a single lobby.

On the face of it this is a logical proposal, but it has stirred further controversy because some bankers see it as an attempt to undermine the position of the powerful Committee of London and Scottish Clearing Bankers, the dominant UK banking lobby, and isolate the Bank of England.

What the whole affair has exposed is the wide diversity of interest among London's banking community which, with 400 foreign banks, is the most varied in the world. Where the Bank appears to have erred is in thinking that it could impose a common UK-inspired culture on them all. By stirring up deeper issues, it has obscured its original purpose. Some bankers have suggested it would do best quietly to drop the whole idea, but the Bank says it intends to press on.

EC-Soviet partnership

An energy model for the future Europe

Peter Ludlow and Heather Ross

The European Commission has been asked to advise the European Council, which meets at the end of this week, on how the European Community might most effectively assist the Soviet Union in its transition to a democratic market economy. It is a formidable task. It is also, however, an important opportunity.

To meet this challenge, the EC will need to develop a strategy that combines openness towards ideas about a comprehensive political architecture anchored in the Conference on Security and Co-operation in Europe process, with concrete initiatives that offer prospects of speedy and tangible economic returns. The energy sector offers the most promising chance for a bold EC move.

There are substantial benefits to be reaped by both east and west. To the Soviet Union, partnership with the European Community offers a chance to:

- forge links to western markets, producing domestic growth, hard currency and a catalyst of domestic transition to a market economy;
- create an investment umbrella for western resources – financial, technical and managerial;
- provide a workable channel for the delivery of western assistance, which can serve as a basis and reference point for long-term political and economic goals.

To the European Community, and more generally to its western partners, such an initiative would:

- diversify sources of energy supply and improve the efficiency and environmental quality of production in the Soviet Union;
- focus the assistance which the EC wishes in principle to offer the Soviet Union on a key sector where improvements can start immediately;
- help the Soviet Union in its transition towards a market economy;
- offer tangible proof to the people of the Soviet Union and more generally of eastern Europe, that the EC, despite its current concern with Economic and Monetary Union and political union, is ready to play an imaginative and constructive role in the building of a new pan-European order.

While mindful of the large, long-term benefits which might be expected to accrue from such an initiative, it is vitally important that the first steps should be clearly focused. Two objectives are involved.

The first aim would be to provide a political and legal framework for private investment and trade, assuring competition for all market participants, including non-Europeans, and safeguarding the validity and reliability of contracts.

The second aim would be to provide a specific channel for and model of public aid from the EC to the Soviet Union. If Soviet energy production is to be modernised and made more accessible to the market, there will be important infrastructural requirements, including the improvement of the transport system, of medical services and of education. There will also be a significant training task – in management, in technology and the improvement of energy efficiency and, by no means least, in the enhancement of environmental protection.

This EC-Soviet initiative should be carefully crafted to take account of the interests of other Europeans and to allow full scope to non-EC institutions which are also preparing western aid proposals. Any truly pan-European energy plan should embrace the European Free Trade Association and take account of the significant hardships faced by eastern European countries trying to restructure their economies at a time of much higher free market oil prices.

There is a strong political case for integrating help towards eastern Europe with the EC-Soviet plan, thereby enhancing the notion of pan-European partnership. Links are also needed with such entities as the International Monetary Fund and the World Bank, which are currently considering aids to the Soviet Union on behalf of the G7 countries.

The institutional structure required to administer a scheme of this kind needs careful consideration. In airing his proposal for a European Energy Community at the European Council last June, the Dutch prime minister Ruud Lubbers suggested a charter of principles with individual protocols tailored to each energy sector. This provides a starting point. It is crucially important, however, to stress that the aim should be to liberate market forces, not to stifle them. This should not be an occasion for the reintroduction of "big government".

For this and other reasons, the analogy with the European Coal and Steel Community, which launched the original six members of the European Community on their way almost 40 years ago, can be misinterpreted. Our understanding of the appropriate role of government in a market economy is now very different. For this reason the best way forward would probably be a dialogue not simply between east and west but between government and industry.

At a deeper level, however, the ECSC remains a relevant and instructive example since it was, above all, a bold attempt to create a new security system. For this reason, it is to be hoped that the European Council will recall the preamble to the Treaty of Paris which established the ECSC. In it, the council's predecessors affirmed that Europe can be built only through practical achievements which will, first of all, create real solidarity, and through the establishment of common bases for economic development.

With this in mind, it was resolved "to substitute for age-old rivalries the merging of their essential interests; to create, by establishing an economic community, the basis for a broader and deeper community amongst peoples long divided by bloody conflicts; and to lay the foundations for institutions which will give direction to a destiny henceforward shared".

Forty years on, these words could acquire an entirely new and still broader significance.

Peter Ludlow is director, Centre for European Policy Studies, Brussels; Heather Ross is strategic planning co-ordinator, BP Europe, and a member of the CEPS EC-Soviet task force.

LETTERS

A working model of audit regulation

From Mr Howard Davies.

Sir, In your editorial comment ("Auditing the auditor," October 19), you describe the "invidious position" in which private sector auditors find themselves and argue that the inspection arrangements envisaged under the Financial Services Act are likely to be ineffective.

I cannot comment directly on the private sector position, but the Audit Commission offers an interesting case study of audit regulation which may have some relevance.

Local and health authorities do not appoint their own auditors; the Audit Commission does so.

It may appoint the District Audit Service (former civil servants) or a private firm. Those auditors are paid by the authority, on a scale set by the commission, and operate within an audit code of practice agreed by the commission, its auditors, the authorities themselves and parliament. They see their prime duty as being to act in the interests of community charge-payers and local electors.

The Audit Commission takes responsibility for monitoring the quality of the audit work done. We collect data on time spent, and the mix of staff used to monitor simple input productivity.

Since 40 per cent of auditors' work is aimed at promoting value for money, we monitor recommendations made and implemented. We can, for example, rate auditors on efficiency improvements identified per £m of public money spent.

This statistical monitoring is bolstered by quality control reviews of selected audits each year. Staff from the private firms and the District Audit Service review each other's work in a structured way. The commission itself receives reports of this work, and audit appointments are reviewed in the light of the conclusions.

The regime is not confrontational in practice. The private firms involved work together while retaining fierce pride in their own quality of work. And it is rarely necessary to impose auditors on unwilling clients.

We still promote a culture of client service. Auditors are told to make themselves useful to their authorities by helping them perform better.

But auditors know that they must meet the commission's standards and that the work they do is ultimately judged by someone other than the client's management. If they must report adversely on a council, they can do so, secure in the knowledge that it will have no effect on the overall amount of work they do.

Where working relationships break down – as can happen – we pragmatically shift auditors around, compensating the departing auditor elsewhere.

We are still, after seven years, struggling to find precisely the right balance between central regulation and responsiveness to local circumstances. We are not sure that our fee-setting arrangements are perfect.

But we have developed a working model of audit regulation which preserves competition, client service and confidentiality, while adding a layer of regulation and control in the interests of the public.

Howard Davies
controller,
The Audit Commission,
1 Vincent Square, SW1

Blighting the lives of the able

From Mr D.P. Roberts.

Sir, Mr Robin Reeve's article ("Why reform holds no lessons for the able," October 17) is a predictable, reactionary response by one whose self-esteem has been honed on the conspiracy between sixth forms and university entrance tutors.

Is it really suggested that there is no alternative examination regime which would maintain the respect in which schools like his King's College School (Wimbledon) are held? Is there no other method by which university entrance tutors could adequately measure the future performance of "the able"?

It is not élitism which concerns me but the arrogance of those who cling to the convention that the only way to run access to higher education is by premature specialisation.

Has it ever occurred to Mr Reeve that far from sticking up for the most able, he is actually blighting their lives? Their continental contemporaries experience a broader based, intellectually demanding course which they leave far better equipped to face the modern European economy.

D.P. Roberts,
2 Cockpit Lane,
Sandiway,
Northwich, Cheshire

From Mr G.R. Diacon.

Sir, As a former pupil of Mr Reeve's school it was with sadness that I became aware of his extremely conservative view of post-16 education. It has been clear to many of us for years that English and Welsh education has failed to meet the needs of a large proportion of pupils and society.

The watered-down grammar school course offered to the less able was clearly unsuitable and usually resulted in severe under-achievement for many. Early specialisation at 14-plus has thankfully been eliminated by the national curriculum with its requirement that a broad range of subjects be studied. But the needs of the less able are still not adequately covered. Specialisation at 16-plus remains and surely those interested in providing for the more able should be seeking to broaden the scope of studies and not be clinging to an old system long abandoned by other countries.

It is absurd that, at 16, the more talented of our children, who will be the leaders of tomorrow's society, should be allowed to drop their studies of the arts or sciences as happens today. Post-16 school education must in future be based upon the compulsory study for two or three years of the arts, mathematics, sciences and a foreign language in order to produce the quality of school-leaver that continental countries achieve. It is no good saying this will result in less depth of study in individual subjects since that is the problem that needs to be cured.

A consequence of this change is that the English and Welsh three-year undergraduate courses will have to be extended to four years. This is the price that will have to be paid to produce the calibre of person required by tomorrow's world.

Mr Reeve would be on much surer ground and would win more support from the community at large if he were to press for such changes. By clinging to past values, he runs the risk of his valid arguments about some of the School Examinations and Assessment Council's philosophies going unheard.

G.R. Diacon,
Baddleborn,
High Cogges,
Witney, Oxfordshire

A realistic approach to London's traffic problems

From Mr Edmund King.

Sir, Mr James Ullman's assertion (Letters, October 19) that Americans are willing to patronise trains for large numbers of journeys like the Los Angeles-San Diego trip really needs to be questioned.

Apparently an Amtrak train carrying 500 passengers removes 400 cars from the roads. In theory this may be so, but in practice not many drivers are taking to the rails.

My four years' experience of transport in California paints a different picture.

Americans are looking more to transport demand management measures as outlined in Mr Nigel Seymer's letter of the same date. The promotion of ride-sharing and high occupancy vehicle (HOV) lanes on freeways is growing. However, it is not so easy to import these measures to London.

In Los Angeles large radial freeways link dormitory towns with the central business district. It is relatively easy to find fellow commuters who use the same route and the size of the freeways allows for a lane to be dedicated to HOVs.

In London the travel-to-work pattern is a great deal more complex and the roads are too narrow for HOV lanes really to take off.

It is more realistic for individual companies to encourage car sharing among their employees. The Automobile Association is at present surveying its 3,000 staff at Basingstoke to ascertain whether they would be willing to operate car shares.

Such moves should be promoted and encouraged.

Edmund King,
secretary,
Movement for London,
Pillar House,
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INDIAN CRISIS

Hindu party deserts minority government

By David Housego in New Delhi

MR V. P. Singh, India's prime minister, tried to save his government from collapse yesterday after a radical Hindu party withdrew support for the minority administration.

The withdrawal by the Bharatiya Janata Party (BJP) came after the government arrested Mr L. K. Advani, the BJP leader, in the eastern state of Bihar.

Mr Advani was held under the Internal Security Act to prevent him continuing his campaign across northern India to mobilise Hindu opinion behind plans to construct a Hindu temple at Ayodyha on the site of an existing mosque.

The government feared the campaign would precipitate further clashes between Hindus and Moslems.

Without the support of the BJP, which has 88 seats in parliament, it is doubtful whether Mr Singh can survive a vote of confidence. His Janata Dal and its allies in the National Front coalition have 143 seats, while the communist and left wing parties which also support the government have 52. Together these equal the 195 seats held by the Congress Party of Mr Rajiv Gandhi, the former prime minister, and its close allies.

Mr Singh said he would test his majority on the floor of the house when parliament reconvenes in three weeks. However, many observers believe his 11-month-old administration will fall before then as a result of struggles within his own party.

The political crisis comes when the country is facing strong internal tension over divisions between castes and between Hindus and Moslems. The security forces are overstretched in fighting separatist movements in Kashmir, the Punjab and Assam and in handling internal disturbances.

India is also facing severe inflation and balance of payments problems in the wake of the Gulf conflict.

Hindu militants in many parts of India reacted violently to Mr Advani's arrest – accusing the government of bowing to Moslem pressure to halt the planned building of the temple at Ayodhya, in Uttar Pradesh. Ayodyha is the alleged birthplace of the Hindu god, Ram.

Four people were killed in Ahmedabad in western India yesterday, while in the north, bazaars closed in Lucknow and Old Delhi. The BJP has called for a national strike today and declared it will go ahead with ceremonies to mark the start of construction at Ayodyha, due next Tuesday.

Mr Singh was threatened with revolt from within his own Janata Dal party by dissidents seeking a change of leadership. Mr Chandra Shekar, the former Congress Socialist and long-time critic of Mr Singh, let it be known that he was a candidate for the premiership. He said: "I am not craving for anything but I am not shirking any responsibility."

The prime minister has warned the dissidents that he will dissolve parliament if they attempt to overthrow him. MPs do not want fresh elections now – although they accept these cannot be delayed by more than a few months.

Mr Gandhi, whose Congress Party is the largest single party in the parliament, made clear yesterday that Congress was not interested in participating in a minority government. Nonetheless, Congress formally asked President Ramaswamy Venkataraman to dismiss the government, which it claimed had lost its majority in parliament.

The confused political situation enhances the power of the president with whom rests the last word on whether to dissolve parliament and call fresh elections.

Singh may survive until rivals are ready, Page 4

Westerners work for east German dream

David Goodhart on two mayors trying to breathe life into their adopted towns

MR Dieter Noll, 50, and Mr Hinrich Lehmann-Grube, 57, are two west Germans with unusual jobs. Since May they have both been mayors of large east German towns, Chemnitz and Leipzig respectively.

Both have made personal sacrifices to travel east. Mr Lehmann-Grube, who used to be chief executive of the town of Hanover, has swapped his Mercedes for a Lada and taken a cut in salary from DM12,500 ($8,205) a month to DM3,000. Mr Noll has left behind his French wife and two children in Mainz and given up a lucrative consultancy business for his DM2,800 a month post.

Mr Lehmann-Grube, a Social Democrat, says he is torn between optimism and despair when contemplating the ruinous state of Leipzig. His manner is unemotional but his thoughts are gloomy. "The people in Bonn have still not grasped the magnitude of the task in turning east Germany around," he says.

Befitting his Christian Democrat party allegiance, Mr Noll is more optimistic. He went east in January to work as a consultant "because I am a patriot and I have old friends in Chemnitz". He says he works 16 hour days and feels "incredibly charged up...there is nothing like it in west Germany".

As a civil engineer he often worked abroad and compares getting things done in east Germany with the problems in a relatively under-developed country. "The difference is the people here are well educated and learn fast, I'm an optimist about the human capital," he says.

Mr Noll enthuses about spending the rest of his life in Chemnitz and says he will bring over his family as soon as he has a suitable place to live. Unlike many west German businessmen who are working in east Germany he has no qualms about putting his children into east German schools.

However, he admits that rebuilding the town will require greater interest from investors than currently evident.

"We are getting interest from the building sector and service industries but lack new manufacturing investment," he says.

Mr Lehmann-Grube says that companies are queuing up to invest in Leipzig but the property question remains "our most serious bottleneck". The Unity Treaty ruled that the principle of returning property to former owners, with its accompanying delays and legal complications, could be overridden where job-creating investment was planned.

This has improved the prospects for some potential developments on private property, but Mr Lehmann-Grube says that "the question of public property has not been solved at all".

There is still confusion over which level of public authority – the communes, the towns, or the new states – controls public property. The Treuhand, the trust body which owns most public property, is still trying to sort out the competing claims.

Dieter Noll (left) and Hinrich Lehmann-Grube: both men made personal sacrifices by moving east

"As a result I can't sell or rent any of Leipzig's land for development at present," says Mr Lehmann-Grube. Mr Noll is taking a more cavalier approach and simply selling or renting land that he reckons should be under his control. But some companies have complained about the high prices being asked for east German land.

The two men agree that their towns need more money, especially for public investment, and more clarity about where it is going to come from. Mr Lehmann-Grube complains that Bonn has still not made it clear how local government will be financed in east Germany.

In west Germany local authorities raise taxes and get a share of national tax income, but it will be several years before east Germany enjoys proper tax flows. In the meantime neither the states nor the towns and communes in west Germany seem ready to practise financial solidarity with the east. Yet it is estimated that east Germany's towns and communes need DM20bn-40bn a year to survive and the five newly formed states will need several times that if they are to replicate the functions of the west German states.

Until the beginning of next year Leipzig must survive on a grant from the central government of DM670m for current costs and only DM25m for investment. Hanover, which like Leipzig has a population of 500,000, has an annual budget of DM2.2bn for current expenditure and DM400m to DM500m for investment.

Curiously, Mr Noll says that Chemnitz is getting more than Leipzig, about DM1bn, despite being much smaller.

That may explain why Mr Lehmann-Grube is cautious about building up his administration while Mr Noll says that his 1,500 staff are quite insufficient. "I have less than half the staff an equivalent town in west Germany would have," says Mr Noll.

Both men are hoping that next year they will get annual budgets of about DM2bn. To rebuild some of their crumbling housing they can draw on a DM10bn grant from Bonn to improve 300,000 old homes. In Leipzig alone 110,000 of the 258,000 homes were built before 1914.

Mr Lehmann-Grube, like Mr Noll, has now drawn up a new city development plan but seems less confident that either his own staff or Bonn will allow him to implement on it. "There is still no real administration here, it will be two to three years before things are even half working," he says.

To a group of visiting Singapore businessmen, Mr Lehmann-Grube is depressingly honest. He says they would be foolish to rush in now with big investments, but adds that in four to five years Leipzig will be booming so it is better to have some presence from the start.

As an example of his administrative nightmare he cites Leipzig airport. The trouble is that unlike west German airports, which are controlled by local authorities, Leipzig is owned by Interflug, the east German airline, and nothing can be done until the airline is broken up and sold off.

THE LEX COLUMN

The lights dim in Europe

Perhaps Mrs Thatcher need not have troubled the Commons yesterday with another firm rejection of a single currency. Even leaving aside blips like yesterday's unexpectedly bad French trade figures, the worsening economic numbers coming out of Europe hardly paint a picture of a continent ready for a swift passage to anything quite so ambitious. This summer, even after the invasion of Kuwait, it looked as though there were at least three large or medium-sized economies - Germany, France and Spain - which could reasonably look for GDP growth of 3 per cent plus this year and another strong performance in 1991. To be sure, France and Spain still seem destined for a soft landing. But the change of mood about prospects is now tangible, with some commentators talking about French growth slowing to 1.1 per cent in 1991. Some *in the markets* still expect a scenario in which German inflation will peak at about 4 per cent in mid-1991, after only a modest tightening of monetary policy by the Bundesbank. On that basis, Germany should pull the rest of Europe through 1991, with the US and the UK coming back on stream the year after that. The nagging suspicion is that this is too rosy and that *this autumn's plunging equity* markets have been better indicators.

Aside from the Gulf, the obvious threat is renewed wage inflation. Given the trend in consumer prices, the 1991 German wage round is surely going to be a lot tougher than 1990's; after the recent corporate tax cuts, France could be going the same way. And perhaps the hidden danger is that *budget deficits are going to* return as a serious problem in 1991-2, and not just for the Italians.

UK industry

The City view of UK industry's grasp of economics has always been slightly contemptuous. Industry stays bullish long after the equity market has scented trouble; by the time it succumbs to gloom, the market is discounting recovery. The trouble about this complacency is that while the market may be good at anticipating events, it is less good at judging their scale. Thus, the cries of distress now coming from the CBI and the Chambers of Commerce are not unforeseen; the question is rather whether they are louder than expected.

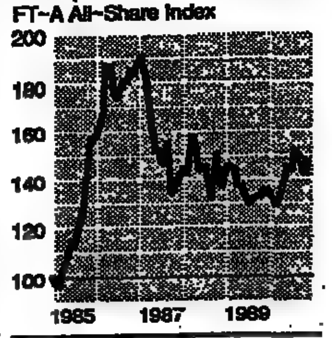
Yesterday's survey from the British Chambers of Commerce strongly suggests that it was not until this year's third quarter that things turned really ugly. Considering how badly equities responded to the interim results season, this implies that not all the bad news is yet in the market. Granted, the survey covers small companies as well as large; but in almost every area – home and export orders, investment, employment prospects – it is the biggest companies which are hardest hit.

The picture is no more reassuring in detail. The drop in home orders is unprecedentedly steep; but export orders are down as well. A sharply higher proportion of companies are worried about inflation; the majority, while expecting to reduce their workforces, still report skill shortages. All this comes before the ERM medicine has hit the system. It could still be that pessimism on this scale is the proof that equities are cheap; but the time-scale on which this is guaranteed could be getting longer.

Wolseley

Wolseley

Share price relative to the FT-A All-Share Index



"Tough markets, exceptional performance" was Wolseley's own judgment of its maintained full year profits, and it is hard to disagree. The downturn in UK manufacturing was expected, but the resilience of the distribution divisions on both sides of the Atlantic took the market quite by surprise. A 10 per cent dividend increase helped the shares yesterday, but given the company's long-term growth record they are still languishing at 286p.

There is still the possibility that Wolseley has badly mistimed the US construction cycle, particularly in California. There is also the danger that a so-far shrewd management might be tempted into a large acquisition and thus spoil the solid financial position. As usual, however, the market is really preoccupied with the effects of an apparently deepening decline in some of Wolseley's core businesses, along with what will be a punishing currency translation effect this year.

Profits for 1990-91 look set to fall from last year's £121m to around £100m, putting the shares on a prospective p/e of just over 9 times earnings and a yield of around 6 per cent. This is not the premium rating which has eluded the company for so long, but given the uncertain outlook in the next six months it seems fair. If £100m represents the bottom of the cycle for Wolseley, it will have plenty of envious rivals. Meyer, for example, is due to announce its interim profits in three weeks. Forecasts suggest a one-third drop to £40m.

Bryant Group

Bryant used to be a rather sleepy Midlands housebuilder which never had a rights issue. In 1986 it got the growth bug and raised £17.4m to help it move into the fast growing market of the south east. In common with some better known rivals it paid too much for some of its land, the result being a provision roughly equivalent to last year's annual dividend. Yesterday Bryant asked for another £40m to have a punt on buying some more; and judging by the 1½p fall in the share price to 92½p, the institutions loved it.

The response is all the more interesting since it is only five months since English China Clays placed its 30 per cent stake in Bryant at 84p per share. The willingness to absorb another 20 per cent of the company at an even lower price is puzzling on two counts. First, the new equity is being issued at an estimated discount to net asset value of over 25 per cent. Second and more important, there is not the slightest chance that Bryant will earn anywhere near the £50m plus it made in the the bonanza years of 1988/89 for a long time to come. Indeed, it will be lucky to earn 9p per share in the year to May 1992, which puts the shares on a pretty demanding rating.

The moral of the tale is that the institutions have more cash than they know what to do with; they are desperate not to miss out on the eventual upturn in the housing market, and there are very few companies they trust. What price a Beazer rights issue?

US budget plan needs Democrat support

By Peter Riddell, US Editor, in Washington

THE PROSPECT of an early end to the US budget crisis appeared increasingly uncertain yesterday as congressional leaders warned that at present there were insufficient votes in the House of Representatives to pass the likely tax package.

Congressional and White House negotiators have narrowed their differences and the main focus is on crafting a package which will carry both Houses. This turns on the means of taxing the wealthy and on the extent of increases in petrol taxes and in the cost of Medicare health provision for the elderly.

The problem is that any *package will* require *the* support of a large majority of House Democrats because fewer than *half* of the 176 House Republicans, and possibly as few as 40, will back any likely plan which increases taxes.

However, a caucus meeting of the 258 House Democrats yesterday split roughly 50/50 on a show of hands, according to Mr Dan Rostenkowski, chairman of the House Ways and Means Committee. He commented: "That's not good enough."

Rank-and-file Democrats are reluctant to support unpopular measures which will make them vulnerable to attack from Republicans in mid-term elections on November 6. They are demanding significant Republican support as a condition for *their votes*.

By losing the backing of a majority of his own House Republicans, President George Bush has become dependent on the Democrats and their desire to stick as closely as possible to the original House plan imposing higher taxes on the wealthy and limiting changes in Medicare and petrol taxes. He has already conceded an increase in the top marginal income tax rate on the wealthiest individuals from 28 to 31 per cent.

By contrast, any package will require bipartisan support in the Senate, including at least half the Republicans, which limits the scope for moving too far towards the House plan.

The immediate complication is that the Republican plan to *tax the wealthy by limiting tax* deductions hits hardest those states with high levels of local taxes, *including* those with large numbers of Democrats such as California, New York and New Jersey. The Democrats have argued for a surtax on those earning more than $1m a year.

Further negotiations were expected late yesterday but there are deadlines not only at midnight tonight when the government runs out of money again but also on the approach of the elections.

Mr Bush, on a campaign trip in New England, yesterday appealed to his own Republican Party to back him. He said the days of "damn the deficit" must come to an end. Defending his acceptance of higher taxes, Mr Bush said he had to "*swallow hard,* but the long-term health of the US and our economy has to come before self-interest".

Defence bill deal, Page 6

Bush moves to repair damage

Continued from page 1

Margaret Thatcher, the British prime minister, yesterday said Britain had received a formal assurance that the Saudi position on Iraq's invasion of Kuwait was unchanged and that the defence minister had been misquoted.

Earlier the prime minister had held almost an hour of talks with Sheikh Jabir al-Ahmad al-Jabir al-Sabah, the Emir of Kuwait. Both agreed that Saddam Hussein must not benefit in any way whatsoever from the invasion of Kuwait.

Mr Bush has appeared distracted recently as a result of a major domestic political crisis caused by the stalemate on the budget. The Israeli army shootings of Palestinians in Jerusalem has also hurt US and British efforts to focus on further sanctions against Iraq.

Brussels seeks to extend its energy powers

By Lucy Kellaway in Brussels

THE European Commission is heading for a battle with member states over a proposal to give itself important powers for managing a future energy crisis.

The plan, under which the Commission could instruct EC countries to sell their energy stocks and cut energy demand, is likely to be approved at a Commission meeting in Strasbourg today and will be put to energy ministers in Luxembourg on Monday.

The measures would allow the Commission to determine the Community's short-term response to a supply crisis. Brussels would be able to tell member states that demand must be cut by a fixed amount for a period of three months. *More sustained reductions* would need member states' approval.

The Commission would also be able to instruct EC countries to sell energy stocks up to the equivalent of 30 days' consumption.

UK officials in Brussels said the plans amounted to "opportunism" and "empire building" by the Commission. Other member states expressed anger at the timing of the proposals, saying they hindered official efforts to convince the oil market that no crisis existed.

They argue that the measures cut across the role of the International Energy Agency, which includes the US and Japan, and which is the forum *for dealing with energy crisis* measures. They are also furious not to have been consulted before the Commission drew up its proposals.

The row underlines the difficulties the Commission encounters each time it tries to increase its influence in the sensitive area of energy, over which member states still retain considerable control.

The impetus for the proposal comes from the recent Gulf energy crisis, in which the Commission has found itself powerless. However, officials underlined that any new powers would be for the next supply crisis and emphasised that there was no such crisis at present.

The proposal would update two directives on energy crisis which date from 1968 and 1973 and require member states to keep 90 days of production in stocks. Officials say these directives left vague the mechanism under which the stocks could be released. Moreover, there was no clear means for concerted EC measures to reduce demand.

As part of the plan, member states would have to put the management of their energy stocks under the care of a single body. Countries such as the UK, which allow oil companies to hold stocks on their behalf, will not respond happily to the proposal.

German interest rates may rise

Continued from Page 1

Bundesbank officials have *made it clear* that the central bank would be prepared to raise official interest rates – last increased by 1 percentage point in October 1989, to a discount rate of 6 per cent and a Lombard rate of 8 per cent – if inflationary pressures increased as a result of overheated demand, higher oil prices, and the costs of unity.

Mr Tietmeyer said integrating the two Germanys would reduce capital exports, amounting to about DM120bn annually in recent years, and make borrowing more expensive. To support this redirection of capital flows, "Germany needs relatively high interest rates and a strong D-Mark".

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	T	18	64	Berlin	S	10	50	Caracas	–	–	–	Faro	S	21	70	Islamabad	F	25	77
Algiers	S	24	75	Biarritz	F	17	64	Casablanca	F	23	73	Florence	S	17	63	Istanbul	R	8	46
Amsterdam	S	11	52	Bombay	S	32	91	Chicago	S	1	34	Frankfurt	S	12	54	Jakarta	R	31	88
Athens	C	14	57	Bordeaux	F	17	64	Cologne	S	12	55	Geneva	R	10	50	Jersey	S	15	59
Bahrain	S	32	91	Boulogne	F	16	61	Copenhagen	S	11	52	Gibraltar	F	21	70	Johannesburg	S	29	84
Bangkok	R	32	90	Brussels	S	14	57	Corfu	S	18	65	Glasgow	F	11	52	Lima	C	18	65
Barcelona	F	20	68	Budapest	S	7	45	Dallas	S	3	39	Helsinki	C	7	45	Lisbon	F	20	68
Beirut	–	–	–	Buenos Aires	F	27	82	Dublin	F	13	55	Hong Kong	–	–	–	London	F	15	59
Belfast	F	12	54	Cairo	S	31	88	Dubrovnik	S	17	64	Innsbruck	S	16	61	Los Angeles	S	16	61
Belgrade	S	8	46	Cape Town	S	17	63	Edinburgh	F	12	54	Inverness	F	11	52	Luxembourg	S	8	46

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	F	22	73	Milan	F	8	48	Nicosia	S	25	77	Salzburg	S	12	54	Tenerife	F	22	73
Madrid	F	12	55	Montreal	C	5	41	Oporto	C	17	63	San Francisco	F	11	52	Tokyo	C	18	66
Majorca	F	21	70	Moscow	C	1	34	Oslo	C	1	34	Seoul	S	22	72	Toronto	C	3	38
Malaga	F	20	68	Munich	S	11	52	Paris	F	18	65	Singapore	F	27	81	Tunis	F	25	77
Malta	S	25	77	Nairobi	C	22	72	Peking	S	20	68	Stockholm	S	9	48	Valencia	F	20	68
Manchester	S	12	54	Naples	F	20	68	Prague	S	10	50	Strasbourg	S	8	46	Venice	S	12	54
Manila	F	30	86	Nassau	F	31	88	Reykjavik	[illegible]	10	50	Sydney	F	17	64	Vienna	S	7	46
Melbourne	C	15	59	New Delhi	S	30	88	Rhodes	C	19	66	Taipei	C	28	84	Warsaw	S	7	45
Mexico City	C	21	70	New York	R	17	63	Rio de Janeiro	F	27	82	Tangier	F	21	70	Washington	R	17	64
Miami	S	25	77	Nice	R	12	55	Rome	F	17	63	Tel Aviv	S	27	82	Zurich	F	5	41

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

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INSIDE

Texaco jumps 25% in third quarter

Third-quarter net income at Texaco has jumped 25 per cent to $381m or $1.38 a share. The large US oil and gas company said its third-quarter revenues rose from $8.4bn last year to $11bn in the period ending on September 30 because of higher crude and product prices and higher sales volume. The group's chief executive, James Kinnear (above), said upstream results had been boosted by an extra 54 cents a gallon on the price of crude during the third quarter as a result of the Gulf crisis. Page 18

McKechnie holds dividend

McKechnie, the plastics and metal components group, yesterday reported a 28 per cent drop in pre-tax profits to £28.09m ($54.7m) in the year to end-July but maintained its dividend. Demand for the group's products was down both in the UK and Australasia. Chairman Jim Butler said the company had "weathered the worst of the downturn" although the outlook was still uncertain. Page 23

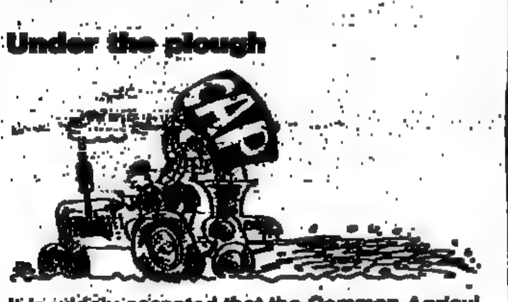
Alcan looks at fresh capital cuts

With recession spreading through more of its main markets, Alcan, the world's biggest producer of aluminium, is considering fresh cuts in capital expenditure after slashing $300m off its budget this year. Page 19

Spanish recovery

The Madrid stock exchange fell more sharply than any other European Community market after Iraq's invasion of Kuwait, largely because of the country's high dependency on oil and because companies were feeling the effects of the government's restrictive monetary policies. In the last 10 days, however, buyers have been rushing back in. Trading volumes now of around Pta10bn ($105m) a day are double what they were two weeks ago and approaching the Pta15bn to Pta18bn before the Gulf crisis. Peter Bruce reports. Back page

Under the plough



It is widely accepted that the Common Agricultural Policy is out of step with the European Community's changing agricultural problems. Should we simply abolish this costly and unpopular policy? Or is there some way of reforming it without sending Europe's 9m-10m farmers into deep trauma? Bridget Bloom examines the conclusions of a new report from the Brussels-based Centre for European Studies. Page 32

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				[illegible]	4429	+	129
Rises				Schneider	668	+	16
BMW	446	+	8	Sanofi	844	+	52
Bayer	218.5	+	3	**Falls**			
Karstadt	687	+	37	Damart	2201	–	39
Kaufhof	592.8	+	40.8	Sagem	1390	–	42
RWE	424.5	+	13	**TOKYO (Yen)**			
Volkswagen	404	+	6	**Rises**			
NEW YORK ($)				[illegible]	1740	+	130
Rises				Honshu Paper	2470	+	240
American Exp.	20	+	⅛	Izumiya	2740	+	220
Disney (Walt)	95½	+	⅜	Shochiku	3890	+	240
Motorola	54⅜	+	1⅛	**Falls**			
Falls				Isetan	3420	–	140
C & S Sovran	16¼	–	2⅜	Ito Yokado	3600	–	180
Chicorp	12⅝	–	¼				
Mobil	57	–	1½				
PARIS (FFr)							
Rises							
Chargeurs	785	+	20				
LONDON (Pence)				News Intl.	101	+	2
Rises				Racal Elecs.	162½	+	10½
ABPorts	223	+	9	Racal Tele.	269	+	10
BAT Inds.	576	+	17	Rosehaugh	91	+	5
Bass	1055	+	14	Shandwick	120	+	5
Boxmore	126	+	8	Tiphook	382	+	16
Brit. Steel	124	+	3	**Falls**			
Capital Radio	130	+	7	BET	215	–	6
Cookson	74	+	6	Cable & Wire.	420	–	10
Davy Corp.	106	+	10	Fisons	370	–	3
Frogmore	274	+	10	Siebe	247	–	10
Johnson Mat.	204	+	5				
Lucas Inds.	125	+	9				
MEPC	409	+	5				

Parretti pays final sum on MGM/UA takeover

By Alan Friedman in New York

MR GIANCARLO Parretti, the controversial Italian financier, said yesterday that he plans to close his $1.3bn takeover of MGM/UA, the Hollywood studio, on Friday. He made the statement after handing over $967m in final payment on the deal.

The agreement calls for Pathe Communications, Mr Parretti's takeover vehicle, to pay a total of $21.50 per share to MGM/UA shareholders, led by Mr Kirk Kerkorian, the hotel and casino mogul who owns more than 80 per cent of MGM/UA. Yesterday MGM/UA's share price rose by ¾ to $17½.

Pathe has already paid $353m in deposits on the transaction, including a $4-per-share payment to MGM/UA shareholders made during the summer.

Vital financial help for Pathe has come from Time Warner, the entertainment conglomerate which only three months ago dropped plans to back Mr Parretti and sued his company for $100m.

Yesterday Time Warner did an about-face by agreeing to cancel all litigation with Pathe in exchange for a home video distribution deal for the MGM, UA and Pathe film libraries.

Pathe is a small studio that includes the rump of Cannon Pictures, the failed Grade B movie company.

The Pathe takeover of MGM/UA has been in doubt since early July. That was when Time Warner withdrew its offer of $650m of loans to Pathe in exchange for worldwide distribution rights to the 1,000-title United Artist's film library. Time Warner then launched its lawsuit against Pathe, charging the company with a "willful, wanton and malicious" breach of contract. Mr Parretti countersued for $500m of damages.

At the time of the lawsuit, Time Warner accused Mr Parretti of "creating a smokescreen" to hide a series of allegedly misleading statements. It claimed Pathe had secretly sold $50m of film rights even though these had already been contracted to Time Warner.

Mr Steve Ross, chairman of Time Warner, came under a storm of private industry criticism for backing Mr Parretti last spring. Standard & Poor's, the credit rating agency, had temporarily placed the company on creditwatch since its $650m loan offer would have increased Time Warner's already considerable $10.8bn debt burden.

The Time Warner/Pathe deal covers a 12¼-year period and calls for a $125m advance from Warner Brothers, the film and television subsidiary of Time Warner.

It is understood that up to $75m of further Warner funds from worldwide home video rights will be used for films to be produced by Pathe/MGM/UA.

Earlier this week, Mr Parretti secured an estimated $200m from Turner Broadcasting, the Atlanta-based cable empire, which agreed a 10-year series of licenses to use the UA film library for television.

News Corp shares rally after strategy is unveiled

Murdoch outlines plan to revive earnings

By Bruce Jacques in Sydney

Rupert Murdoch after the meeting: will "concentrate on profits from all of our businesses"

MR RUPERT Murdoch yesterday dismissed the stockmarket's recent sell-off of News Corporation's shares and outlined to shareholders how he would revive the earnings performance of the media and industrial group.

After the Australian stockmarket had digested the comments of News Corp's chief executive, the price of News Corp shares jumped 54 cents to A$6.10 (US$4.72).

Addressing a packed annual meeting in Adelaide, attended by almost 300 people, Mr Murdoch had projected a "steady as she goes" image. He shunned any "quick fix" promises to allay investor concern on the company's current A$10.5bn debt. Rather, the emphasis was on reassurance that the company's medium-term prospects remained strong.

"In the here and now, we can do nothing about the share market," Mr Murdoch said. "What we have to do in this company is concentrate on profits from all our businesses.

"We have the realism to recognise problems as they arise, and transform those problems into opportunities. I hope our recent difficult and decisive actions (notably asset sales and merging of Australian newspapers) demonstrate considerable qualities vital for success in this troubled environment.

Mr Murdoch said he expected the company's trading profits this financial year to be ahead of the previous year, despite a weak global economy. In the last year to June, the company declared a 43 per cent net earnings fall to A$282.3 million.

But he said the company was "fighting" to maintain operating income in Australia, where greater plant efficiencies were offsetting softer newspaper and magazine advertising.

The meeting approved a change in News Corp's articles to allow the issue of non-voting shares, but not before a representative of one of Australia's largest institutional shareholders, the Australian Mutual Provident, spoke strongly against the motion. But the AMP, which holds about 3 per cent of News Corp, proved a lone voice and Mr Murdoch told the meeting that the group wanted the option of raising capital but to "retain our character and remain competitive with our rivals around the world."

He said it was "unlikely" that the Australian Stock Exchange (ASX) would block the company's non-voting issue plans. On Monday, the ASX issued a discussion paper on limited voting shares which indicated it was favourably considering the News Corp proposal. Mr Murdoch sought to play down previous media suggestions that News Corp had threatened to move its home stock exchange outside Australia if the ASX rejected the non-voting issue plans.

Mr Richard Searby, News Corp chairman, pointed out that the company's latest profit figures before abnormal items would have been another record, but for losses incurred in the Sky TV operation and the prolonged Australian pilot's strike.

He said the increase in the company's balance sheet debt in the latest year had stemmed from "direct investment in enterprises which the company is building. The financial institutions which lend funds to us are always, and scrupulously, kept informed by the company of the state and progress of operations. They would not otherwise lend.

"We keep our finances under constant review. It is a customary exercise. But I should say we aim to replace the whole or a substantial part of our short-term debt with long-term debt."

According to the company's 1990 balance sheet, its short-term debt (repayable within one year) rose from A$558m to A$2.95bn. Mr Searby said News Corp had acquired and built up an array of assets which would be of "lasting and outstanding value."

He said the two main areas of continuing investment would be Sky TV and new UK and Australian printing presses.

The Sky operation was not forecast to be profitable before 1992. Mr Searby said the new generation of colour printing presses being developed by the company would provide a "competitive edge well into the future".

He said the company's UK papers had defied tough economic times to maintain circulation figures and market share. But profits had fallen because of lower classified advertising volume.

Nadir in desperate shuttle to raise cash by today

By David Barchard, Clay Harris and Richard Waters

DIRECTORS of Polly Peck International meet this afternoon in London to hear whether Mr Asil Nadir, chairman of the troubled fruit, electronics and leisure group, has obtained enough money to avoid the appointment of administrators.

Mr Nadir yesterday shuttled between Turkey and northern Cyprus seeking cash buyers for assets.

If he fails to produce £30m ($58.5m), directors are likely to accede to demands that the group be placed in administration.

In that case, the Department of Trade and Industry should launch an investigation, a large institutional investor said yesterday.

"It is inconceivable that a company could go from a market value of over £2bn in June to virtually nothing, without the UK authorities appointing inspectors to look into its affairs."

The mounting nervousness among creditors was illustrated yesterday when National Bank of Canada broke ranks with other banks and applied in London for the company to be wound up.

Later, however, Polly Peck and independent sources said they understood the bank would withdraw the petition. However, this was not confirmed by the bank.

Although the application is not scheduled to be heard until December 12, it has the effect of freezing all of Polly Peck's assets, including its bank accounts.

When bank creditors agreed to extend a repayments standstill until November 9, Polly Peck said it would raise £70m in the meantime.

So far, it has obtained only a fraction of this. At the end of September, Polly Peck's total borrowings exceeded £1bn.

One Polly Peck director said he doubted that Mr Nadir would come up with £30m from northern Cyprus alone, but held out the hope he might raise the balance from Turkey.

Istanbul bankers said they did not expect the group to survive. "The end is coming near," one said. "Mr Nadir is not succeeding in selling anything here, including his personal assets, and he has no way out now."

In Istanbul, Mr Nadir lunched yesterday with Mr Dinç Bilgin, the owner of Sabah, Turkey's largest-selling newspaper which has conducted a fierce campaign against him in recent months.

They discussed a sale of Günaydin, a mass circulation daily which Mr Nadir bought in 1988, but sources in Ankara said he had failed to clinch a deal.

In mid-afternoon, Mr Nadir returned empty-handed to Cyprus, which he had left less than 24 hours earlier. Earlier, employees gathered outside the group's offices in Nicosia after more than 100 were told that they hade been made redundant.

The dismissals raised fears of further job losses in northern Cyprus where Polly Peck is the largest employer with a work force of more than 8,000.

Mr Richard Stone and Mr Jim Truscott, the accountants who are reviewing Polly Peck's operations in Turkey and Cyprus for Coopers & Lybrand Deloitte, also returned to the island.

They left Cyprus on Monday after being told that an interim court injunction, granted following an application by seven orange farmers, prevented them from having access to any of the group's company records.

They will learn this morning whether the injunction has been lifted.

Canadian loan fears, Page 24

Philips settles US class action with $9.25m deal

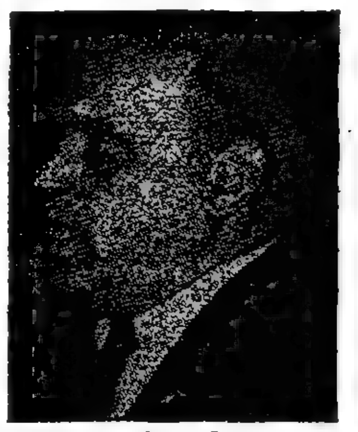
By Ronald van de Krol in Amsterdam

PHILIPS, the Dutch electronics group, said yesterday that it has reached a $9.25m settlement with US shareholders who sued the company for allegedly misleading investors earlier this year about the outlook for results.

The suit is believed to mark the first time that foreign investors have sued a European company on the issue of corporate reporting.

The company said its agreement to settle the US class action suit did not mean it was admitting liability, which it continues to deny. "The company sought a settlement in order to reduce the high costs of what might have been a lengthy procedure and to avoid a major call on the management's time," Philips said.

The settlement, reached with lawyers for the plaintiffs, must still be approved by the New York judge handling the case. Philips said the court case had not yet reached the stage at



Timmer: predicts Fl 2bn loss

which the US investors had put forward concrete demands for compensation.

Philips was accused of issuing incorrect information between January 8 and May 3 1990 about the course of business. On May 3, Philips reported that net income before extraordinary gains plunged to just Fl 6m ($3.5m) in the 1990 first quarter from Fl 223m a year earlier. The news led to a steep fall in Philips' share price.

The first-quarter downturn was unexpected, as the then president of Philips, Mr Cor van der Klugt, had told the annual shareholders' meeting only three weeks earlier that full-year net earnings would be higher. Company management acknowledged that they were surprised by the deterioration in first-quarter business, and Mr van der Klugt later resigned.

Mr Jan Timmer, who took over as president in July, is now forecasting a full-year net loss of FL 2bn, reflecting charges of Fl 2.7bn being taken this year to restructure the group's computer and components divisions. Philips is due to release third-quarter figures on Thursday.

BHF to buy east German bank

By Katharine Campbell in Frankfurt

THE FINANCE ministry in Bonn yesterday gave the go-ahead for Berliner Handels-und Frankfurter bank, the small west German universal bank, to take a 64 per cent stake in the east German Deutsche Handelsbank.

BHF thereby expands its eastern presence, hitherto confined to a branch in Leipzig. It first expressed an interest in early summer, and talks have dragged on since then.

Deutsche Handelsbank, a subsidiary of the Staatsbank Berlin (formerly the state banking monopoly), was responsible for the foreign currency financing of a portion of east Germany's trade with the West in communist days. BHF said yesterday that the east German bank complemented its own activities in scope and emphasis – as well as being one of the few eastern banking institutions still for sale.

Its staff, with exposure to western banking practices, are better qualified than most east German bank employees.

BfG, the ex-trade union bank, and Bayerische Landesbank were also understood to have been interested in the bank. Since unification, the Staatsbank has been formally the property of the Bonn government.

BHF hopes to pick up the remaining 36 per cent stake of Deutsche Handelsbank, currently held by five east German conglomerates which were once big customers of the bank. BHF said it expected no problems as the Treuhandanstalt, the trust body charged with the privatisation of east German industry, needed funds urgently.

While BHF has not disclosed the purchase price, other sources have estimated it might pay about DM300m ($455m) for the full 100 per cent.

In common with most east German firms, Deutsche Handelsbank does not yet have a proper balance sheet. According to BHF's own estimates, total assets are around DM15bn, with loans valued at DM7bn on 30 June this year.

BHF recognises that many of these assets will be worth considerably less as the restructuring of the east German economy takes its toll.

Higher crude oil price helps boost Texaco by 25%

By Alan Friedman in New York

SHARPLY higher crude oil prices helped the upstream side of Texaco, the large US oil and gas company, which yesterday reported a 25 per cent jump in third-quarter net income to $381m or $1.38 a share.

Texaco said its third-quarter revenues rose to $11bn in the period ending on September 30 from $8.4bn last year because of higher crude and product prices as well as higher sales volume.

The company's net income for the first nine months was halved year-on-year to $1.06bn. However, this occurred because the 1989 results had included a one-time $1.1bn gain from the sale of Texaco Canada.

Revenues for the first nine months of this year were $28.8bn against $26.4bn in the same period last year.

Mr James Kinnear, chief executive of Texaco, yesterday said that events in the Middle East caused an uncertain and volatile world oil market, which added 54 cents a gallon to the price of crude during the third quarter.

He acknowledged that this increase benefited the company's upstream results.

However, downstream refined product margins had declined significantly since July due to the inability of the marketplace to absorb higher crude and product acquisition costs.

Mr Kinnear said Texaco's US wholesale petrol prices increased by less than half the rise in crude prices.

He said its petrochemical results – which were $12m for the third quarter against $69m last year – were alsohit by increased raw material costs as well as lowerprices.

Texaco's exploration and production results were $207m for the third quarter, up from $124m a year ago.

Manufacturing and marketing profits were $108m against $74m.

Dyno rises to NKr280m and appoints president

By Our Financial Staff

DYNO, the Norwegian chemicals and explosives group, yesterday announced a rise in nine-month profits and announced the appointment of Mr Arild Ingierd as president and chief executive.

Mr Ingierd has been Dyno's executive vice-president and chief operating officer since 1985. He replaces Mr Hans Bjoentegaard, who resigned in August citing "co-operation problems" with some employees.

Dyno said profits before year-end appropriations rose to NKr280m ($47.5m) in the first nine months of 1990 from NKr248m in the same period last year. Turnover rose to NKr5.02bn from NKr4.64bn.

All the company's divisions performed better in the latest period. "The biggest [improvement] was in explosives and chemical activities," Dyno said, adding that "more than 80 per cent of Dyno's sales income comes from outside Norway".

The explosives side had achieved most of its growth in the US, where sales and profitability had developed favourably. Results also improved in Norway, and in Sweden the results were good, although not up to last year's level.

In chemicals, lower prices reduced sales, but profitability improved, especially in south-east Asia and Norway-based operations.

Overall, profits in the third quarter were slightly weaker than earlier in the year, due to higher net financial expenses. Dyno said 1990 profits would be slightly lower than last year, due to the uncertainty caused by the Gulf crisis. Higher oil prices could lift the cost of Dyno's most important raw materials.

NEWS IN BRIEF

Neste lifts profits to FM1.69bn

NESTE, the Finnish state-owned oil and chemicals group, yesterday announced an increase in eight-month group profits before reserves and taxes to FM1.69bn ($472m) from FM1.42bn the previous year, writes Enrique Tessieri.

Operating profits rose to FM2.68bn from FM2.18bn. Consolidated sales were up by 18.7 per cent to FM27.7bn from FM23.33bn. Neste, which is not publicly quoted, attributed the increase in group profits to higher global oil spot market prices.

About half Neste's sales were generated by its trading and supply division, which saw sales increase to FM13.56bn from FM11.51bn.

■ Adidas, the German sports equipment company, will break even this year and achieve profitability in 1991, according to Mr Bernard Tapie, the French financier who recently bought the company, agencies report.

Mr Tapie also said a new top manager would be appointed to Adidas, which made a loss of DM130m ($85m) last year. The person, who he said was among the best-known industrial managers in west Germany, would be named after the supervisory board meeting on October 22.

■ Mr Silvio Berlusconi, the Italian media entrepreneur, is selling his three pay-TV stations, the Telepiu network, to a group of nine Italian business executives, Reuter reports.

Mr Berlusconi did not disclose the value of the deal but said press reports that the accord was worth between L450bn ($396m) and L550bn were accurate. He had to sell the network to comply with recently-passed legislation regulating media ownership.

■ Banco Santander, the Spanish bank, yesterday reported consolidated pre-tax profit up by 15.26 per cent in the first nine months of 1990 to Pta76.6bn ($808m) from Pta66.5bn in the period a year earlier, AP-DJ reports. Net interest income grew 10.87 per cent to Pta143.9bn, despite a 37.55 per cent surge in financial costs to Pta301.6bn.

Loral deal heralds satellite alliance

By Martin Dickson in New York and William Dawkins in Paris

THE AGREEMENT by Loral, the US defence electronics group, to sell 49 per cent of its satellite business to three European partners is the latest in a series of international alliances in the world satellite industry.

Under the accord, Loral will sell, for $182m, a 49 per cent stake in the former space systems division of the Ford Motor Company to Aerospatiale and Alcatel, the French aircraft and telecommunications groups, and Selenia Spazio, the Italian aerospace company.

This should create from early in 1991 one of the world's largest producers of civil telecommunications and weather satellites, with sales of FFr6.5bn ($1.28bn) and 5,000 employees.

This is close to the FFr7bn turnover of Hughes Aircraft, the industry leader, owned by General Motors.

The recently-pooled satellite businesses of Matra of France and Marconi of the UK have a turnover of up to FFr4bn, while the satellite-making merger currently being negotiated between Deutsche Aerospace and General Electric of the US would have annual sales of up to FFr4bn.

The European companies are being offered part of Ford's aerospace division, which Loral won in an auction last July.

This does not include Ford Aerospace's other space-related businesses, whose primary customers are Nasa, the US space agency, and the US Department of Defense.

Both Aerospatiale and Alcatel were in rival teams which made unsuccessful bids to buy the Ford business this year. Until they signed this memorandum of understanding with Loral, the two French companies were discussing a joint venture.

This was based on the match between Alcatel's experience in making satellite payloads and Aerospatiale's expertise in platforms, the structures which carry the working parts of satellites. Clearly, the French companies have now abandoned the joint venture in favour of this new form of co-operation, said Alcatel officials.

Loral felt that it needed to put its resources with those of European companies to be a powerful international competitor in the sector, said a representative of the US group.

Each side brought with it special technical expertise and access to markets.

Ford's space systems division has a turnover of some $350m and combining forces with the European companies will move it closer in size to US rivals Hughes Aircraft, and the space operations of General Electric.

● Aerospatiale staged a big profits turnround in the first half of this year, with FFr45m of net income, as against a FFr109m loss in the same period of last year, the state-owned group announced yesterday.

Strong civil aircraft sales by Airbus Industrie, the European consortium in which Aerospatiale is a leading partner, were the main factor.

Aerospatiale warned that the steep fall of the dollar – in which aircraft sales are denominated – would make it difficult to match the FFr204m net profit made in 1989.

Sales rose by 6.6 per cent in the first half, to FFr15bn from FFr14.07bn, and are expected to reach FFr33bn for the full year.

FRENCH market regulators said that the five biggest shareholders of Navigation Mixte had signed an agreement to protect the French holding company against unwelcome takeovers, AP-DJ reports.

The Société des Bourses Françaises said a five-year deal had been signed by Compagnie Financière de Paribas (30 per cent); Crédit Lyonnais, the bank group (10.37 per cent); Allianz, the German insurer (9.15 per cent); Société Générale, the French banking group (5.25 per cent); and Société Centrale d'Investissement (7.21 per cent).

The pact had been anticipated as the conclusion of last year's failed takeover bid for Navigation Mixte by Paribas.

Slowdown in construction hits Weyerhaeuser results

By Barbara Durr in New York

WEYERHAEUSER, the big US conglomerate best known for its forestry products, saw third-quarter net earnings fall by 46 per cent to $90.6m or 42 cents per share from $168.8m or 78 cents last year.

Third-quarter sales fell 12 per cent to $2.3bn from $2.6bn.

For the nine months ended September 30, net income was $334.9m, down 29 per cent, and sales were $6.9bn, a drop of 8 per cent. Earnings per share totalled $1.57, down 29 per cent.

Mr George Weyerhaeuser, chairman, said the largest declines in the third-quarter results were in businesses related to new construction.

US housing starts have dropped off and other construction projects have slowed as the economy has faltered.

Earnings in the company's building products division were down 56 per cent and those in its construction subsidiaries fell 59 per cent.

Mr Weyerhaeuser added that domestic log and timber prices have fallen because of a depressed US lumber market.

While the domestic market is unlikely to improve in the near term, exports of those wood products should increase as Japan's inventories of lumber and logs are used up, he said.

The company, based in Takoma, Washington, also expects some improvement in the cyclically low prices for paper and paperboard, with upturns particularly for newsprint, linerboard and some paper grades.

The company is completing its restructuring to narrow its business base and this took $22.7m off net earnings, or 11 cents per share, in the third quarter.

Weyerhaeuser shares fell ⅛ to $19 in morning trading on the New York Stock Exchange.

Slow sales cause Fiat to reduce production targets

By John Wyles in Rome

CONTINUING difficulties in holding its domestic market share lie behind a decision by Fiat Auto to reduce its production target this year by 90,000 units instead of the 75,000 targeted only two months ago.

As a result, the Turin company, which holds second position in the European market, will be laying off 70,000 workers for a week next month rather than the 35,000 who were laid off for a week last month and this. For the first time this year, assembly lines at Chivasso, Cassini and Pomigliano d'Arco will be halted to control stocks.

Although car sales in Italy fell by 7.46 per cent last month, total deliveries of 1.8m to Italian customers are still 0.25 per cent higher than in the first nine months of last year. If Fiat had continued to hold its 1989 share, it would have sold about 75,000 more units this year.

In fact Fiat marques, which include Lancia and Alfa Romeo, have accounted for about 53.5 per cent of sales compared with nearly 58 per cent in the same period last year. Imports have risen from 41.96 per cent to 46.15 per cent with Ford winning more than 3 percentage points to take 7.41 per cent.

Against this background of growing pressure in its home market, Fiat's talks on possible collaboration arrangements with Chrysler of the US are believed to be making some progress.

Mr Gianni Agnelli, the Fiat chairman, said this week that "there are possibilities of industrial and commercial accords" with Chrysler but his company was refusing to reveal any more.

Fiat is known to believe that its product line is incomplete without a four-wheel drive leisure vehicle and, after considering an arrangement with a Japanese producer, may now draw from the Chrysler Jeep range.

Severn Trent lapses £74m hostile bid for Caird

By Andrew Bolger in London

SEVERN TRENT, the privatised water company, is to lapse its hostile £74m ($143m) cash bid for Caird Group after taking fright at the waste management company's defence document.

Severn Trent will withdraw its 100p-a-share cash bid today in spite of having received acceptances from owners of 56.2 per cent of the ordinary shares in Caird, formerly a stockmarket high-flier.

However, the Takeover Panel has refused Severn Trent permission to submit a lower offer immediately. The water company, one of the UK's largest, will appeal.

Caird shares yesterday closed 2p higher at 54p, while Severn Trent shares rose 3p to 205p.

Severn Trent is left holding 29.98 per cent of the ordinary shares in Caird, which it spent £16m acquiring after the bid was launched last month.

The outcome of the first hostile takeover attempt to be launched by one of the recently privatised water companies is an embarrassment for Severn Trent and Mr John Bellak, its chairman.

Severn Trent could make a lower offer for Caird in a year's time, if its appeal against the Panel's ruling against an immediate lower offer fails.

It could also place its stake and then sue Caird for making what Severn Trent considers to be a misleading profits forecast last month, on which Severn Trent based its offer.

A representative of Samuel Montagu, the water company's adviser, said Severn Trent had protested to the Takeover Panel within an hour of Caird's defence document being published last week, that the profits claimed were practically non-existent.

The water company made its offer conditional on Caird repeating a forecast, given on September 4, that it would make pre-tax profits of £8.5m in the 18 months to December 31. Caird said last week it would make only £7.15m, and made extraordinary provisions of £4.89m to cover anticipated losses and closure costs.

INTERNATIONAL COMPANIES AND FINANCE

Alcan not foiled by world downturn

Kenneth Gooding *on the metals group's confidence despite spending cuts*

Alcan, the world's biggest producer of aluminium, is considering cutting capital investment again in view of the uncertainties arising from the Gulf crisis, says Mr Jacques Bougie, president of the Canadian group.

The group said in May it would cut expenditure by nearly a quarter this year, from US$1.3bn in 1989 to $1bn, in view of a tighter aluminium market and lower prices. "We have the flexibility to pull back capital expenditure again in 1991 and a review is going on to consider whether we should do so," said Mr Bougie.

He said he would be "jittery" if Alcan were operating only in North America. The US, Canada, Australia and Brazil were all in recession, but economic activity in Europe (excluding the UK) and south-east Asia was still going well.

Alcan needs to spend about $400m a year just to keep its capacity ticking over. It has also pledged to replace its outdated smelter system in Quebec, at an estimated cost of C$3bn (US$2.6bn). So far about C$800m has been spent on its Laterrière smelter, which replaces 10 of the 14 out-of-date pot lines at the old Arvida facility.

When Alcan's income was boosted by exceptionally high aluminium prices at the end of the 1980s, it speeded up the Laterrière project so that the first phase was finished in December last year and the fourth, and final, phase will be completed early in 1991.

Once the Quebec capacity is completely regenerated, Alcan will get 100,000 to 120,000 tonnes more metal a year from the same power-supply base. Last year the group produced about 1.6m tonnes of primary aluminium, and this year's output should be about the same.

Jacques Bougie: "we have the flexibility"

Mr Bougie insists the aluminium industry's fundamentals remain sound for the longer term. Alcan sees demand for aluminium growing at an annual 3.1 per cent until the year 2000, with demand for new metal growing at 2 per cent and, for secondary (scrap), at more than 4 per cent from a smaller base.

The industry's efforts to recycle more aluminium should see secondary metal accounting for 40 per cent of total supply within 10 years, compared with 30 per cent now. This would provide much of the extra aluminium needed for expected growth in the next decade.

Mr Bougie suggests Alcan is in much better shape to face any economic downturn than it was in the recession of the mid-1980s. The group spent $416m to rationalise during the bad years, of which $60m went for early retirement payments. Employment was cut from 70,000 to 57,000, and more than $300m lopped from annual running costs.

Mr Bougie says Alcan has "a tremendous competitive" advantage in its drive to cut costs and become more competitive. This is because it is the most international of all the world's aluminium companies, with more than 100 plants in 18 countries. "The fact that we are able to pick the best worldwide hard and soft technologies to put to work in Alcan will give great benefits in the future," he says.

Alcan is also in a position to take part – as a credible, reliable supplier – in some markets where there is a trend towards globalisation. For example, the car producers "want one product to the same standard wherever they operate in the world".

Not only does Alcan have great opportunities to share in European and south-east Asian growth – expected to be much more rapid than in North America – but it should also outpace the aluminium market in the US, a country it entered in the 1960s. It was only two years ago that Alcan entered the US aluminium extrusion market, the biggest of its kind in the world.

Alcan is also in good shape to take part in the further rationalisation and reshaping of the world's aluminium industry, a process which is not yet over. Recent high metal prices have simply obscured the difficulties for some in the industry.

In Europe, Alcan's strategy has been to increase the specialisation of its plants as the European Community moves to bring down the remaining tariff barriers. However, says Mr Bougie, Europe will not become one market overnight.

"For the next 10 years there will still be some national markets for some products. There will be many regional businesses and niches in packaging, for example. So it is not possible for Alcan to have one, sweeping strategy for Europe."

The opening up of east European markets should provide Alcan with a considerable bonus because "we've had a window to eastern Europe for 15 years. We have credibility with their industry. We want to capitalise on that and on our technical abilities".

Mr Bougie says aluminium was used in most eastern European countries mainly for products deemed to be strategic. So there is a huge latent demand for aluminium building, construction and packaging products.

Alcan's German subsidiary already has signed a co-operative agreement covering rolled products and foil with a number of companies in the former east Germany. Alcan will provide technology, and the partners will sell Alcan's aluminium building products.

ALCAN – revenue, net income and capital expenditure (US$m)

	1989	1988	1987	1986	1985	1984
Revenues	9,047	8,626	6,678	6,056	5,631	5,676
Net income *	835	931	433	277	(147)	284
Capital expenditure	1,466	676	415	342	597	427

* Figures in brackets indicate loss

Elders sells rural divisions

By Bruce Jacques in Sydney

ELDERS IXL, the diversified Australian brewing group, has continued its much-touted divestment programme with the sale yesterday of three rural divisions, mostly to ConAgra, the US-based agricultural company.

The two companies jointly announced the sales, which involve Elders' brewing materials operation, its international wool business and part of its meat division.

The package is slightly different from that proposed when the deal was first mooted several months ago at a rumoured A$360m (US$277m). It is speculated that Elders will receive under A$300m.

Mr Keith Lawson, chief executive of Elders Agribusiness, said ConAgra would buy the brewing materials and wool trading divisions outright.

● Asahi Breweries of Japan has made its foreshadowed foray into Elders shares, laying out about A$98m for 66.7m shares, or nearly 3 per cent of the company's capital.

The purchase is part of Asahi's stated plan to take a 19.9 per cent stake in Elders with the remaining shares being purchased from Elders' main shareholder, Harlin Holdings.

Japan brokers fall sharply

By Ian Rodger in Tokyo

JAPAN'S 10 second-division brokers all reported sharp declines in their operating income and profits in the six months to September 30, a reflection of the deep slide in Japanese stock markets and their weaker position in the market compared to the big four: Nomura, Daiwa, Nikko and Yamaichi.

Many had been investing heavily in expansion in an attempt to close the gap with the big four when the market fell.

Trading volume on Japanese stock exchanges in the six months to September was 29.3 per cent lower than in the same period of 1989. Also, in June, commission rates were cut by an average 7 per cent.

Two of the 10, Yamatane and Dai-ichi, plunged into losses. Yamatane attributed its especially poor performance to tumbles in the value of its holdings of bank shares and other securities.

New Japan Securities, one of the largest second-division brokers, has set up a task force to streamline its operations. The company, which has close ties with Industrial Bank of Japan, has transferred 60 people from the clerical division to sales jobs to improve its retail selling power.

Kankaku is slowing its branch expansion programme.

JAPANESE BROKERS' RESULTS
Six months to end-September

Firm	Revenue Ybn	% change	Pretax profit Ybn	% change	Net profit Ybn	% change
Kokusai	87.7	-10.8	23.5	-26.8	8.3	-37.0
New Japan	83.1	-17.4	6.5	-76.1	1.3	-90.7
Kankaku	67.7	-25.4	5.7	-78.4	0.2	-98.0
Sanyo	52.1	-16.7	4.7	-77.0	5.9	-40.1
Wako	59.8	-15.3	11.6	-45.0	7.4	-31.8
Okasan	48.5	-13.7	7.5	-44.3	3.2	-43.8
Cosmo	36.2	-25.0	4.0	-67.4	2.1	-48.3
Tokyo	20.1	-22.7	1.5	-81.6	1.2	-71.6
Dai-ichi	23.1	-28.6	-1.1		-1.8	
Yamatane	12.0	-60.0	-4.8		4.4	-11.8

Birla, Akzo in chemicals ventures

BIRLA, the large diversified Indian group, and Akzo, the Netherlands chemicals group, are to manufacture polyester filament yarn (PFY) and speciality chemicals in India, writes Kunal Bose in Calcutta.

Rajashree Polyfil, a Rs2.5bn ($135m) joint venture in Gujarat, in which Birla will hold 25 per cent and Akzo 20 per cent, will produce 15,000 tonnes of PFY a year.

Centex Chemicals, a Rs140m joint venture in Maharashtra, will produce organic peroxide.

Control Data suffers decline in third period

By Louise Kehoe in San Francisco

CONTROL DATA, the US electronics and computer group, saw a decline in third-quarter earnings and said it planned to take "decisive steps in the fourth quarter to deal with two serious, yet isolated, issues" within its energy management and automated wagering operations.

Third-quarter net earnings were $8.5m or 20 cents per share, down from $9.8m or 23 cents last time. The company recorded a pre-tax gain of $4.3m from the sale of stock in Silicon Graphics, a workstation manufacturer.

Revenues declined sharply to $434.1m from $763m in the same period last year before the sale in September 1989 of Control Data's disk drive subsidiary to Seagate Technology.

"There are two unanticipated issues concerning the Empros energy management and automated wagering businesses that we will resolve as quickly as possible in the fourth quarter," said Mr William Miller, chief financial officer.

"First, the problems of Empros now appear to be deeper than we thought earlier this year . . . and earnings in the fourth quarter may be adversely affected.

"Second, the Skillball competition operated in the UK by Golden Grid was suspended at the end of September due to low levels of participation."

For the nine months, Control Data reported net earnings of $26.5m or 62 cents, against losses of $484m in the same period last year. Revenues declined to $1.26bn from $2.41bn.

Two NY securities houses report third-quarter falls

By Martin Dickson in New York

TWO OF Wall Street's leading securities houses – Salomon and Morgan Stanley – yesterday reported sharply lower third-quarter net income.

Salomon was dragged down by a $200m pre-tax charge to slim its loss-making Philipp Brothers commodities unit and lower securities trading revenues, while both houses were hit by a decline in investment banking revenues.

Salomon reported net income of $79m or 55 cents a share, down from the $177m or $1.28 a share in the same period last year.

This was despite extremely strong figures from its Phibro Energy oil trading unit, which was helped by the surge in crude prices following the Kuwait invasion.

Salomon said that excluding the Philipp Brothers special charge, net income in the quarter would have been $201m, with earnings per share of $1.62.

Revenues net of interest expense totalled $1.11bn, up from $893m, while non-interest expenses rose to $975m from $615m.

Philipp Brothers made a pre-tax loss of $91m in the quarter, up from $9m a year ago. Many of its operations have been absorbed in other Salomon units, while the company has been holding talks on the sale of the non-ferrous metals side with Mark Rich, the Swiss commodities trader, and a branch of South Africa's Anglo American group.

Phibro Energy earned $369m pre-tax, up from $56m, helped by the volatility of the oil markets, higher prices and increased volume.

However, pre-tax earnings at Salomon Brothers, the companies securities operations, fell to $56m from $231m in the third quarter of last year. The figures were also below the $218m and $211m earned in the first two quarters of this year.

The company said this was due mainly to lower trading revenues, although investment banking was also down.

Morgan Stanley reported net income of $71.9m or $1.82 a share, down from $101.1m or $2.54 a share. The company said this reflected an absence of revenues from "merchant banking" – Wall Street's term for banks' investment of their own money in corporate restructurings – as well as a decline in investment banking activity.

Investment banking revenues were $176.6m, down from $192.1m, while trading activities produced $245.7m, up from $188m.

Revenues in the third quarter of last year were helped by a $56.2m gain from the restructuring of one of the bank's investments, in Burlington Holdings.

Revenues net of interest expenses were $588m against $582.4m, with other expenses totalling $460.7m, up from $415.2m.

Modest gain for American Express

By Alan Friedman in New York

AMERICAN EXPRESS, the US travel, investment banking and financial services conglomerate, has reported a modest 3.6 per cent improvement in third-quarter net income, to $344m.

However, the New York-based company, which suffered a 6.8 per cent drop in third-quarter revenues to $6.06bn, achieved only $44m or 4 cents a share of net income for the first nine months of 1990, compared with a $900m net profit or $2.09 a share in the 1989 period.

The poor nine-month results reflect the $915m first-quarter loss at Shearson Lehman Brothers (SLB), the investment bank and brokerage subsidiary.

After accounting for preferred dividends and minority interests, American Express recorded a $5.4m third-quarter loss on its Shearson holding, compared with a $41m contribution in the 1989 quarter.

Mr Jim Robinson, the chairman said the latest results included record performances by three core business units.

RJR Nabisco cuts losses by 81% at nine months

By Martin Dickson

RJR Nabisco, the food and tobacco group which was the subject of the biggest leveraged buy-out in the US, yesterday reported a sharp jump in third-quarter operating income and an 81 per cent decline in net losses, which dropped to $86m from $447m a year ago.

The company, which was taken private last year by Kohlberg Kravis Roberts in a $25bn buy-out, said operating income after amortisation of trademarks and goodwill rose 56 per cent to $706m from $452m on sales 18 per cent higher at $3.53bn.

However, comparisons with 1989 are complicated by the fact that third-quarter figures last year were depressed by the company's cutback in US tobacco shipments to eliminate the high levels of inventory held by the trade.

Mr Sam DeRosa-Farag, a bond analyst at First Boston, said the figures were slightly better than expected and the company continued to perform impressively.

A key measure of a buy-out's performance is the cash flow available to pay its usually heavy debt burden. In the third quarter RJR's ratio of cash flow to total interest rose from 0.98 a year ago to 1.20. For the nine months the figure was 1.22, up from 1.06.

The third-quarter net loss included $507m of non-cash interest payments and $308m of other non-cash charges, including amortisation of intangibles and depreciation. The figure also included a $108m extraordinary gain from repurchases of company debentures below par as part of a complicated recapitalisation programme last July.

The tobacco business had net sales of $2.1bn, up 36 per cent. "Business unit contribution" (operating income before amortisation of trademarks and goodwill) rose 51 per cent to $451m, but last year's figure was reduced by some $230m because of reduction in inventories.

RJR said the domestic tobacco business had higher volumes, favourable pricing and benefits from cost reduction, although these were partly offset by a significant rise in marketing expenditure.

The food business saw a 4 per cent rise in sales and a 19 per cent increase in business unit contribution, excluding operations sold since last year.

Northern Telecom at record $91m

By Robert Gibbens in Montreal

NORTHERN Telecom, the international telecom equipment group controlled by BCE of Canada, posted record profits for the first nine months and a 14 per cent gain in its order backlog.

Despite competitive world markets, demand for Northern's switching and other equipment ran at exceptional levels in the third quarter, said Mr Paul Stern, chairman. International business grew fastest in the first nine months and overall earnings for 1990 will be a record.

Third-quarter profit was US$91.4m or 38 cents a share, up 23 per cent from $74.5m or 31 cents a year earlier, on revenues of $1.61bn against $1.41bn. Order input was up 20 per cent to $1.83bn. Total order backlog at September 30 was almost 2.1bn, up 14 per cent.

Nine-month profit was $254.4m or $1.05 a share, up 31 per cent from $192m or 80 cents a year earlier, on revenues of $4.9bn against $4.3bn.

Central office switching equipment, Northern's principal product line, had the largest revenue gain in the first nine months. Results for transmission products were strong, and those for business communications systems and terminals also improved. But cable and outside plant sales fell.

● Hudson's Bay has taken over Towers, a national discount department store chain, for a price estimated by analysts at nearly C$150m.

F.W. Woolworth had expressed interest in counterbidding, but the seller, Oshawa Group, did not accept Woolworth's request for financial information. Towers will now be integrated with Bay's successful Zellers chain.

Special gains boost McDonnell

By Karen Zagor in New York

MCDONNELL Douglas, the largest US defence contractor, increased its losses from transport aircraft manufacturing during the third quarter, but its net income rose sharply thanks to a number of large one-off items.

Third-quarter net income was distorted by an after-tax gain of $234m or $6.11 a share from a change in its pension fund arrangements. The aerospace group decided to retract its previously recorded earnings in its C-17 transport aircraft programme, resulting in after-tax charges of $58m or $1.52 a share.

Including both of these items, McDonnell Douglas's net earnings in the 1990 quarter were $248m or $6.46 a share, against $38m or 98 cents a year ago. Sales were $4.18bn against $3.71bn in 1989.

Net profits in the latest three months were $72m or $1.87, excluding the pension fund settlement and the retraction of the C-17 programme.

For the first nine months, net income was $307m or $8, including the $234m gain from the pension fund settlement. In the first nine months of 1989, the company had net earnings of $159m or $4.16, including gains of $179m or $4.68 from a change in accounting standards. Revenues rose in the first three quarters of 1990 to $12.1bn from $10.3bn.

Shares in McDonnell Douglas slid $1 to $51¼ at midsession on the New York Stock Exchange.

In June, McDonnell Douglas said it would implement extensive job and cost cuts because of "potentially serious cost problems" on fixed-price aircraft development contracts with the Pentagon.

Yesterday it said it had cut more than 11,000 jobs from its workforce. Excluding these, employment at the end of September was 124,688, against 132,960 a year ago.

3M income up 9.4% as sales rise to $336m

By Barbara Durr in New York

MINNESOTA Mining & Manufacturing (3M), the diversified US industrial group, saw third-quarter net income rise by 9.4 per cent to $336m or $1.52 per share, from $307m or $1.37 last year.

Sales, boosted by international operations which accounted for 48 per cent of the total, rose to $3.3bn, a 7.8 per cent increase over the $2.9bn reported for the third quarter last year.

Mr Allen Jacobson, 3M chairman, said the company benefited from a weakening US dollar and a lower effective tax rate. Exchange rate effects boosted third-quarter earnings by about $13m, or 6 cents a share. This offset negative currency effects of about the same amount suffered during the first half of the year. A lower tax rate contributed another 6 cents per share.

For the first nine months, 3M's net income rose 6.4 per cent to $1bn or $4.57 per share, up from $952m or $4.29 a share last year.

First-quarter modest increase pleases Wang

By Louise Kehoe

WANG Laboratories, the US office computer manufacturer, recorded a modest profit for its first fiscal quarter, after two years of heavy losses.

First-quarter net profits were $2.6m or 2 cents per share, compared with a net loss of $62.1m or 38 cents per share for the first quarter of fiscal 1990.

In the latest quarter the company recorded a gain of $11.8m from the sale of its interest in a European real estate subsidiary.

Revenues from continuing operations totalled $571.5m for the first quarter, down from $604.8m in the same period last year.

"Given an extremely difficult industry situation and an adverse economic environment, we are pleased with these results as further evidence that our turnround programmes are working," said Mr Richard Miller, chairman and chief executive.

During the quarter Wang completed the elimination of its bank debt, which stood at $575m in August 1989, Mr Miller said.

For fiscal 1990, Wang recorded losses of $715.9m including restructuring and other charges of $504.3m. In fiscal 1989, Wang had net losses of $424.3m.

Magna pins hopes on shake-up

By Bernard Simon in Toronto

MAGNA International, the debt-burdened Canadian vehicle components maker, has suffered another large quarterly loss but expressed confidence that a restructuring programme now under way will put it back in the black next year.

The net loss for the three months to July 31 was C$21.4m (US$18m) or 76 cents a share, compared with a C$7.4m profit or 27 cents a year earlier. Losses for the fiscal year to July 31 totalled C$224.3m, against a 1989 profit of C$33.6m.

The bulk of the 1990 loss came from asset writedowns and other restructuring costs totalling C$185.4m, of which C$16.2m was incurred in the latest quarter.

Fourth-quarter sales climbed 9.9 per cent to C$518.2m. Sales for the year were little changed at C$1.9bn.

Magna enjoyed explosive growth in the 1980s, becoming one of North America's largest makers of vehicle components. But a combination of the motor industry slowdown, high interest rates and an over-extended management have forced it to seek relief from lenders and suppliers.

As part of the restructuring, it has sold operations in the past year with annual operating losses of about C$50m. Inventory levels have also fallen sharply.

Magna said asset sales and financing from new joint venture partners have raised C$120m of the C$400m in debt payments due by next July. Agreements signed and due to close soon will generate more than C$100m.

The company said other negotiations were under way to reach the C$400m target. The company has a total debt of just more than C$1bn to be restructured.

It added that "a minimum of new investments will be required for the next few years and the profits generated from this asset base together with debt restructuring activities should put the company in a financially healthy position".

Capital Cities/ABC slips 8%

By Alan Friedman

CAPITAL Cities/ABC, the third-largest US television network, yesterday said advertising demand at ABC had been significantly weaker in the past month than for the first nine months of 1990 and forecast a decline in fourth-quarter earnings.

The company, which owns the ABC radio and television national networks, eight television and 21 radio stations, daily and weekly newspapers including the Fairchild Publications fashion trade business, shopping guides and book publishing activities, said third-quarter operating income declined by 8 per cent to $143.9m.

This occurred despite a 10 per cent rise in revenues to $1.2bn.

Net income was 11.3 per cent down in the quarter while earnings per share were $4.16, a decline of 9 per cent year-on-year.

On Wall Street, Capital Cities/ABC was marked 6 per cent lower yesterday morning, declining by $25 to $407.

Operating income from broadcasting fell by 15 per cent to $115m, although the ABC Television network reported modest profit improvement.

Earnings from the 80 per cent-owned ESPN cable sports network declined sharply, reflecting losses in the first year of coverage of major league baseball.

The company's publishing earnings were 9 per cent higher at $36.2m, but Women's Wear Daily, the bible of the fashion industry, did worse than the overall publishing division.

Hedging pays off for American Barrick

By Bernard Simon

HEDGING of gold output at above market prices coupled with a sharp rise in output lifted American Barrick's income to record levels in the third quarter.

The Toronto-based gold producer earned US$15.6m or 12 cents a share, up from $11.9m or 10 cents a year earlier. Revenue rose to $65.4m from $50.2m.

Barrick realised an average price of $455 an ounce of gold sold, up from $431, and has hedged the bulk of its output for this year.

Production from the six mines in the US and Canada in which Barrick has an interest jumped to 163,400 oz from 114,900 oz.

Most of the increase was from the Goldstrike property in Nevada, where output for the three months more than doubled to 102,500 oz. Barrick said the ore grade at Goldstrike had been 20 per cent higher than the reserve model so far this year.

Total output for the first nine months of 1990 was 437,600 oz, up from 331,400 oz a year earlier.

Despite its impressive operating results, Barrick's shares have taken a battering in recent weeks, trading at C$21.75 in Toronto yesterday afternoon, down from a peak last summer of C$28.25.

Paccar books 71% plunge

PACCAR, a leading US manufacturer of heavy-duty trucks, reported a 71 per cent plunge in third-quarter net income, reflecting the weakening of the US truck industry, writes Karen Zagor in New York.

In the third quarter, net earnings were $14m or 40 cents a share from $48.3m or $1.38. Sales slipped 26 per cent to $617.6m.

Nine-month net income dropped 60 per cent to $57.9m or $1.66 a share. Sales fell 24 per cent to $1.91bn.

It attributed the sharp decline to overcapacity which has forced prices down.

Inco forms gold company with Consolidated TVX

By Bernard Simon

A SIZEABLE new Canadian gold mining company is to be created by the merger of the gold subsidiary of nickel producer Inco and Toronto-based Consolidated TVX Mining Corp.

The new company, to be called TVX Gold, will operate six mines, including three in Brazil and one each in Canada, the US and Chile. The mines' combined production will be about 350,000 oz next year and 400,000 oz in 1992. Total reserves are estimated at 7m oz.

The company will also have interests in three Canadian gold deposits which have been extensively explored.

They include the Casa Berardi properties in Quebec, which have periodically sent flurries of excitement through the gold mining community in recent years.

TVX Gold is scheduled to start operations in January. The deal will take place by means of Consolidated TVX issuing 71m shares to Inco in exchange for the assets of Inco Gold.

Inco, which has planned for some time to spin off its wholly-owned subsidiary Inco Gold, will have a 58 per cent interest in the new company, with the remaining 42 per cent held by existing TVX shareholders.

Quaker Oats falls as forecast

QUAKER Oats, the Chicago-based foods group, yesterday unveiled lower first-quarter earnings, in line with the company's expectations, writes Karen Zagor.

For the three months ended September 30, net income fell 40 per cent to $33.2m or 42 cents a share from $55.7m or 70 cents a year earlier. Sales rose to $1.33bn from $1.21bn.

The earnings decline from continuing operations was a less dramatic 14 per cent to 42 cents a share from 49 cents a year ago. Consolidated operating income slipped 12 per cent to $88.3m from $101.4m.

Mr William Smithburg, chairman said the results reflected higher marketing expenses and significantly reduced sales in Brazil.

INTERNATIONAL CAPITAL MARKETS

German investors focus on DM3bn post office issue

By Deborah Hargreaves in London and Karen Zagor in New York

THE GERMAN government bond market traded in a narrow range yesterday as investors decided to turn their attention to a new tranche of bonds issued by the German post office. The DM3bn issue of bonds carried a coupon of 9 per cent and was priced fairly generously at 100.60 to yield 8.89 per cent.

These bonds proved attractive to domestic investors and the issue was placed well with a trading level of 99.95 at the end of the day.

In the bund market, trading was quiet as the market edged down in response to a weaker D-Mark and a rebound in the price of oil. The cash market dropped by 30 pfennigs to yield 8.95 per cent on the 10-year Bund while the futures contract drifted back to 81.95 after an opening level of 82.

Some traders reported an increase in international investor interest in the bund market as some investors took profits on Japanese bonds and bought bunds. In addition, the spread between the French and German markets widened by several basis points as a poor trade figure in France pushed down bond prices by some 20 centimes.

■ US TREASURIES eased modestly yesterday afternoon in quiet, featureless trading in a market which is numbed with waiting for the budget negotiations to conclude.

In late trading the Treasury's benchmark 30-year bond was down 1⅛ point at 99⅜, yielding 8.78 per cent. Shorter-dated maturities were unchanged to ⅛ point lower.

The market shrugged off the Federal Reserve's execution of two-day matched sales when Fed Funds were trading at 7¹⁵⁄₁₆ per cent. With the funds trading below the perceived target of 8 per cent, analysts had not expected the Fed to operate in the open market.

Profit-taking contributed to some of yesterday's lower prices. Traders said the market was technically over-bought after recent gains. Furthermore, there is some nervousness about the upcoming supply before next week's quarterly refunding announcement, particularly since the backlog of unauctioned Treasury issues is growing.

In the late afternoon, the Treasury said it plans to raise about $1.8bn in fresh cash on Monday through the sale of a record $19.6bn in short-term bills to redeem $17.81bn in maturing bills.

■ THE Japanese government bond market experienced some profit-taking in advance of the Ministry of Finance's auction of new bonds today. The yield on the 119 benchmark bond edged up to 7.75 per cent in London trading from a Tokyo close of 7.73 per cent.

The MoF is expected to auction Y700bn-Y800bn of bonds today carrying a probable coupon of 7.2 per cent, although there is a general feeling in the market that this is too low to attract strong demand. Since the issue will not be a benchmark, pension funds and life companies have little interest in holding it.

■ IN THE UK, there was little investor interest in a dull market for gilt-edged securities, which saw a reasonable amount of movement on thin volume. Prices ended little changed on the day. A benchmark 11¾ per cent bond maturing in 2003/07 moved up five ticks from 101⅞ to 102⅛.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	102-23	+02/32	11.85	11.81	12.52
		9.000	03/00	88-13	+05/32	11.39	11.47	11.73
		9.000	10/08	84-27	+03/32	10.94	11.06	11.11
US TREASURY *		8.750	08/00	100-18	-09/32	8.66	8.79	8.93
		8.750	08/20	99-15	-16/32	8.79	8.93	9.07
JAPAN	No 119	4.800	6/99	84.7317	-0.151	7.74	7.97	8.63
	No 129	6.400	03/00	94.1391	-0.103	7.46	7.65	8.14
GERMANY		8.500	08/00	98.9500	-0.050	8.97	9.07	9.02
FRANCE	BTAN	9.000	11/95	95.6127	-0.071	10.14	10.23	10.42
	OAT	8.500	03/00	89.6800	-0.010	10.24	10.36	10.57
CANADA *		10.500	07/00	95.5500	-0.150	11.26	11.38	11.12
NETHERLANDS		9.000	10/00	98.8300	+0.070	9.18	9.22	9.22
AUSTRALIA		13.000	07/00	98.1234	+0.370	13.34	13.37	13.57

London closing, *denotes New York closing
Yields: Local market standard
Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

DTB to trade first futures contracts

By Katharine Campbell in Frankfurt

THE Deutsche Terminbörse (DTB), the German electronic derivatives exchange, will begin trading its first two financial futures contracts on November 23.

The exchange, which currently lists 15 options on blue-chip German equities, was to expand into futures from the beginning of September. However, technical problems emerging on the first day of the simulation phase prompted the delay.

The new software, which has been tested in bank dealing rooms since October 1, now meets the required standards, according to Mr Jörg Franke, chief executive of the DTB.

One of the problems has been adapting software originally conceived for options trading into an efficient futures mechanism.

The DTB will initially list two new instruments – a future based on the DAX real time stock index of 30 blue-chip stocks, and a 10-year government bond future similar to the established product on the London International Financial Futures Exchange.

The latter product will focus attention on the relative merits of open outcry trading, as on Liffe, versus the electronic alternative now offered by DTB. The latter starts with a handicap, partly because Liffe's product has grown into one of the exchange's foremost contracts.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on October 23

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield	OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	[illegible]	[illegible]		9.81	COUNCIL EUROPE 7 94 LFr	600	[illegible]	[illegible]		10.06
ALBERTA PROVINCE 9 3/8 95	600	101	[illegible]		9.12	KREDIETCORP 7 93 LFr	1000	[illegible]	[illegible]	[illegible]	10.08
AUSTRIA 8 1/2 00	400	[illegible]	[illegible]	[illegible]	9.51	WORLD BANK 8 96 LFr	1000	[illegible]	[illegible]		10.00
BANK OF TOKYO 8 3/8 96	300	[illegible]	[illegible]		9.48	ALBERTA PROVINCE 10 98 C$	300	[illegible]	[illegible]	[illegible]	12.12
BELGIUM 9 1/8 92	400	[illegible]	[illegible]		8.59	BCE INC 9 5/8 93 C$	300	[illegible]	[illegible]	[illegible]	12.42
BFCE 7 3/4 97	150	[illegible]	[illegible]	[illegible]	9.26	BELL CANADA 10 5/8 99 C$	150	[illegible]	[illegible]	[illegible]	12.22
BNP 8 5/8 94	300	[illegible]	99	[illegible]	9.05	BRITISH COLUMBIA 9 1/4 93 C$	150	[illegible]	[illegible]	[illegible]	12.33
BP CAPITAL 9 5/8 95	150	[illegible]	[illegible]		8.94	EIB 10 1/8 98 C$	130	[illegible]	[illegible]	[illegible]	11.81
CANADA 9 96	1000	[illegible]	[illegible]		8.92	FORD CREDIT CANADA 10 94 C$	100	[illegible]	[illegible]	[illegible]	12.85
CARCO 9 1/4 96	250	[illegible]	[illegible]		9.91	GENERAL ELECT CAP 10 1/4 93 C$	175	[illegible]	[illegible]	[illegible]	12.04
CCCE 9 1/4 95	300	101	[illegible]		8.94	MONTREAL TRUSTCO 8 1/2 92 C$	100	[illegible]	[illegible]	[illegible]	13.46
COUNCIL EUROPE 8 96	100	[illegible]	[illegible]		9.11	ONTARIO HYDRO 10 7/8 99 C$	500	[illegible]	[illegible]	[illegible]	12.25
CREDIT FONCIER 9 1/2 99	300	[illegible]	[illegible]	[illegible]	9.51	QUEBEC PROV 10 1/2 98 C$	200	[illegible]	[illegible]	[illegible]	12.47
DENMARK 0 98	250	[illegible]	[illegible]	[illegible]	9.49	ROYAL TRUSTCO 10 1/4 93 C$	100	94	[illegible]	[illegible]	13.05
DENMARK 8 1/4 94	150	[illegible]	[illegible]	[illegible]	9.08	SWEDEN 9 3/4 93 C$	250	[illegible]	[illegible]		12.03
ECSC 8 1/4 95	195	[illegible]	[illegible]		9.24	AUSTRIA 7 3/8 93 Ecu	125	[illegible]	[illegible]	[illegible]	10.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Institutions in the UK go back to the futures

Deborah Hargreaves looks at the leading role played by Prudential Portfolio Managers in the increasingly attractive markets for derivatives

When Mr Trevor Pullen, managing director of Prudential Portfolio Managers, was bullish on the Australian equity market several months ago, he bought futures contracts in the stock index which is traded on the Sydney Futures Exchange. In this way, he gained exposure to the market without going through the lengthy procedure of buying individual stocks.

Mr Pullen has been active in futures since the start of the London International Financial Futures Exchange in 1982, while many of his counterparts shied away from the high risks they perceived in the futures markets.

Now, more UK institutions are beginning to turn to derivatives for the enhanced returns and risk protection they can afford. There have been developments this year that have chipped away at institutions' reluctance to use derivatives.

These include the clarification of the instruments' tax status in this year's Budget and the release of draft rules by the Department of Trade and Industry paving the way for the creation of futures funds in the UK. At the same time, futures and options have enjoyed a higher profile as London's leading markets prepare to merge.

Mr Pullen explains that Prudential adopts a very straightforward strategy in its approach to the derivatives markets. As in Australia, the fund managers will "pre-invest" in the futures markets in anticipation of cash that will flow into the fund later in the year. Once the funds are available, Mr Pullen will cash in any profit he has made in futures and invest the cash in equities.

Futures can be a quick, cheap way to take a view on whether an equity market will go up or down. Since futures are leveraged transactions, a fairly heavy exposure can be gained for only a small upfront payment. At a later date, when the cash flows into the fund, the futures position can be closed and the money put in equities.

Mr Pullen estimates that it costs him a fraction of the price – less than one twentieth – to put his money into futures rather than the underlying equities.

The other important use Mr Pullen makes of derivatives is to enable him to alter exposure between markets without disturbing his painstakingly-constructed stock portfolios. "If we want to buy the UK and sell the US, we would sell US stock index futures and buy FT-SE 100 futures. We would keep this position in place while there is differential market movement to be gained and will not touch the portfolios."

Prudential has £35bn ($68bn) under management, of which about half is available to Mr Pullen's team for use in the derivatives markets. Some investment fund trustees are still reluctant to sanction the use of futures and Mr Pullen must gain their approval before putting their money into derivatives.

With its broad view of world stock markets, Prudential takes an interest in most new futures exchanges and has traded on a range of markets across the world.

Mr Pullen is currently most interested in finding a good way of trading Nikkei 225 futures outside the restrictions imposed by the Japanese authorities. For this reason, he is looking carefully at using the new Nikkei futures contracts that have just started trading at the Chicago Mercantile Exchange.

"If you can use the Japanese and US index in the same marketplace with one margin payment and the same settlement procedures, it makes that market much more attractive." At the same time, Mr Pullen and his fund managers would like to see a FT-SE contract trading outside London hours in order to extend the market's trading time.

Prudential is considering the creation of its own futures and options fund which will offer retail investors some of the opportunities to become involved with derivatives while probably offering a guaranteed return of principal. But none of these products can go ahead until the DTI passes rules governing the funds.

Mr Pullen cannot understand why other institutions hesitate before using derivatives.

INTERNATIONAL CAPITAL MARKETS

Tonami Transport $100m issue draws strong demand

By Simon London

THE EURODOLLAR Japanese equity warrant market showed signs of life yesterday, with a $100m deal for Tonami Transport via Kankuku trading well above issue price.

Launched at par, with an indicated coupon of 5⅛ per cent, the bonds traded as high as 109¼ bid before falling back to about 108 by mid-afternoon.

INTERNATIONAL BONDS

The Tokyo Stock Exchange has rallied strongly over the past few days, registering seven days of straight gains. The Nikkei index closed above 25,000 on Monday for the first time since September 13.

Like many transportation stocks, the Tonami share price has fallen sharply since the Gulf crisis erupted.

From a 1990 high of Y1300, the stock fell to a low of Y620 earlier this month. However, boosted by sharply lower oil prices, the shares now stand at Y772 – and the market clearly believes they may have further to go.

There may not be room for another deal to trade as high as 109 from launch, but a return to 104-105 for future deals is likely. The problem is finding issuers willing to address the market and the calendar for future issues remains extremely light.

Next week, Kobe Electric Railway is expected to come via Fuji bank. Beyond this the outlook is uncertain.

Many warrant issues have been quietly dropped over the past month, with issuers unwilling or unable to launch at current levels. Borrowers feel that the all-in cost of yen funds is too high at present and they may wait for interest rates to fall before joining the new issue queue.

Elsewhere, there are rumours that Ferrovie della Stato, the Italian state railway company, is planning an Ecu floating rate issue. Spanish borrower ICO is also rumoured to be considering a floating rate issue.

There has been a steady widening of spreads in the secondary market for floating rate paper over the past few weeks. The trend has been most pronounced in the D-Mark sector, following a flood of new issues at the start of the year. For example, the Republic of Austria 15-year DM700m deal is down about half a point from par launch levels in February.

However, the movement is not confined to the D-Mark sector, and extends to the developing Ecu floating rate sector. The Kingdom of Belgium 10-year Ecu100m floater is now trading at par, with sellers in the market, having been at 100.30 when launched in April.

Dealers suggest that investors are anticipating an increase in floating rate issuance and are selling existing holdings to make room for new paper in their portfolios.

ERM fillip for mortgage-backed securities

***Simon London** expects renewed interest in securitisation in the wake of Britain's entry*

The bleak position of UK home-owners has taken its toll on the sterling mortgage-backed securities business over the past year. New issue volume is down by 22 per cent against the same period last year, spreads have widened and coveted triple-A credit ratings are more difficult to achieve.

The fall in issue volume is a reflection of the fall in the number of mortgages taken out by UK house-buyers. Mortgage-backed securities are traded instruments backed by a portfolio of home loans.

All sterling mortgage-backed issues to date have been a securitisation of new mortgage business by "centralised lenders" such as Household Mortgage Corporation, National Home Loans and The Mortgage Corporation, rather than a packaging of existing loan portfolios by established building societies. Market participants hope sterling's entry into the European exchange rate mechanism, and the expected downturn in domestic interest rates, will rekindle the housing market and renew interest in securitisation.

The first signs of stress in the sterling mortgage-backed securities business appeared in the last quarter of 1989, when the margin on issues began to widen following 18 months of consistent decline.

Recent issues pay an interest rate of 25 basis points over the London interbank offered rate, compared with rates as low as 18 basis points over Libor in 1989.

This widening of spreads in part reflects a relaxation in the intense competition for issue mandates last year. But there has also been a reassessment by investors, prompted by fears over rising mortgage arrears and repossessions in the UK housing market.

Repossessions increased four-fold during the first half of this year, according to figures from the Council of Mortgage Lenders. Moreover, while the council represents the largest 15 building societies, accounting for 60 per cent of the UK home loans market, its figures tend to understate the severity of the position. It is the more recent loans made by the new lenders which tend to fall into arrears – the loans on which mortgage-backed securities are based.

However, even after a tough year, write-offs are unlikely to reach much beyond 0.016 per cent of building societies' assets. Mortgage indemnity insurance and relatively stable house prices in most areas will protect mortage lenders from anything other than small losses. Market participants argue that these losses are more than adequately covered by "credit enhancement" in the form of additional insurance or a shock-absorbing layer of equity capital.

To achieve a triple-A credit rating, typically between 7 per cent and 15 per cent of the underlying mortgage portfolio must be covered by equity, heavily subordinated capital or an insurance guarantee.

Projecting the current bleak loan-loss figures through the life of an average mortgage portfolio still only results in total losses of 0.15 per cent. This suggests that the chances of a holder of a mortgage-backed security incurring a loss are remote.

The downturn has, however, made it more difficult for the issuers to sell the "loss absorbing" subordinated notes. Japanese leasing companies – traditionally the major market for mortgage-backed subordinated paper – have their own domestic problems.

The recent flood of subordinated paper from Japanese banks has also saturated the market for high yield subordinated debt. The cost of subordinated paper remains unchanged at about 1 per cent over Libor, but buyers are more difficult to find.

One way of bypassing the subordinated note structure is to opt for a "pool insurance" scheme, whereby the loss is absorbed by an insurer rather than subordinated investors.

In June of this year Collateralised Mortgage Securities No4 (issued via a special purpose vehicle for National Home Loans) was structured on a pool insurance basis, with 13 per cent of the £200m principal covered by Eagle Star.

However, the big issuers have continued to press ahead with securitisation. Despite an overall drop in new issues, the big three issuers mentioned above have already issued more than last year and account for 94 per cent of issues so far in 1990.

This increased market share reflects the fact that other issuers have fallen by the wayside as their new mortgage business has evaporated. Falling interest rates resulting from sterling's entry into the ERM may bring other issuers back to the market next year.

In 1988-89, perhaps 7 per cent of new mortgage business was securitised. Yet total outstandings of mortgage-backed securities represent a fraction of 1 per cent of the UK's total £250bn of outstanding mortgages.

In contrast, about 35 per cent of all US mortgages are securitised. So if the mainstream lenders do embrace securitisation the sterling market could mushroom.

Before this takes place the mainstream building societies will have to do a great deal of work in terms of investment in systems technology and sophisticated analysis of their loan portfolios. This process has begun.

In addition, overseas commercial banks with UK mortgage business may soon relieve balance sheet pressures at home by using securitisation techniques.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Tonami Transportation(a)#	100	(5⅛)	100	1994	2¼/1½	Kankaku (Europe)
SWISS FRANCS						
Tohoku Electric Power(a)◆	200	7½	101	1997	-	UBS
Hokuetsu Ind.(b)★★#	50	5½	100	1995	1⅜	BSI
Ricoh Elemex Corp(c)★★#	45	6	100	1995	1½	Wirtschafts & Privatbk
Nippon Mic(d)★★§	30	6⅛	100	1995	1⅝	Swiss Volksbank
GUILDERS						
NV Nederlandse Gasunie(a)◆	125	9	100¼	1995	1	SBCI NV

★★Private placement. §Convertible. #With equity warrants. †Floating rate note. ◆Final terms. a) Non-callable. b) Callable 15/11/93 at 102% declining ½% semi-annually. c) Put option 30/9/93 at 109⅞% to yield 9.066%. d) Put option 31/3/93 at 108⅛% to yield 9.257%.

IBCA wins authorisation from SEC

By Deborah Hargreaves

IBCA, the European credit rating agency, has become the first non-US firm to be recognised by the Securities and Exchange Commission (SEC) as an authorised rating agency.

This will give the firm chance to compete with the established US agencies, Standard & Poor's and Moody's, in the US market.

Mr Robin Monro-Davies, managing director of IBCA, said the SEC recognition was part of the agency's international drive, although he admitted that it would be tough to compete with the US agencies on their home ground.

While securities or debt can be issued in the US without a rating, under SEC rules on the distribution of paper, broker-dealers have to put up less capital if buying paper which carries an investment-grade rating from an established agency.

IBCA will now have to convince issuers that one of its ratings is as valuable as a rating from one of the big US agencies.

Rating has become well established in the US, but Mr Monro-Davies believes that, with the internationalisation of securities trading, ratings will come to have similar importance in other financial markets.

IBCA has applied for recognition in other countries such as Japan.

Slow response to SEC private placement rule changes

By Stephen Fidler, Euromarkets Correspondent

THE SLOW response to the US Securities and Exchange Commission's new rules to encourage private placements has several roots, the most significant of which is the underlying uncertainty of financial markets which has intensified since the Gulf crisis.

INTERNATIONAL EQUITY ISSUES

One other potential problem is a legal one. In framing its Rule 144a, the SEC did not address the question of whether an offering of shares in such private placements constituted a "distribution". If it does, then the offering by a foreign company of shares through 144a would have a significant potential impact on dealers in those shares in the home market.

Under US rules, all participants in a distribution must be out of the market between two and nine days prior to the distribution. This would force UK marketmakers to cease activity. Afterwards, SEC stabilisation rules on the trading of securities must be followed – rules which conflict with stabilisation practices in the London market, for example.

European securities firms are not keen to see the long arm of the SEC pushing in on their home turf. So when decisions are made about where to offer the shares in an international public offering, they are likely to oppose placing the paper in the US.

There are ways around the problem. An exemption letter can be granted from the SEC, but framing the application and receiving an exemption takes time and runs counter to the philosophy behind 144a, which was to make such placements easier.

US investment banks argue that this rule discriminates against their participation in the international equities business, and have made representations to the SEC. They say the expert institutional investors qualified to buy securities under 144a do not need the protection of rules designed to help small investors. The issue is under review by the SEC.

INTERNATIONAL equity investors in the US have long been miffed at the short shrift they get when non-US companies make takeover bids for other non-US companies.

Where US shareholders own only a small percentage of the securities sought in a bid, they are being increasingly ignored. This is for two reasons. In a hostile bid, opening an offer to US nationals gives the target company recourse to US courts. Even in the case of an agreed bid, any non-cash offer forces the bidding company to undertake onerous SEC registration procedures.

In response, the SEC has come up with a proposal.

According to Mr Edward Greene, London-based partner in the US law firm Cleary, Gottlieb, Steen & Hamilton, the *basis for its proposal is a* planned disclosure system between the US and Canadian securities authorities. Under it, an offer for a Canadian company could proceed in the US under Canadian disclosure and procedural laws if less than 20 per cent of the target's securities were held in the US.

However, to ensure protection for US investors, the SEC would insist on the application of US liability and fraud rules.

In theory, this procedure could apply to the UK. In practice, Mr Greene says it will not be followed by the City.

This is because in the case of a hostile bid there is the risk to the bidding company of US litigation. In an agreed offer, officers of a bidding company will still be exposed to US civil liability standards, which are stricter than in the UK.

As a result, the City has suggested an alternative. The City of London Law Society has suggested a distinction based on whether a target company has voluntarily entered the US market. Where a presence in the US market is not voluntary, the society suggests the offer should be *exempt from all SEC rules* except those related to fraud.

This approach would, however, require a change in the SEC's statutory structure and legislation which would be unlikely to pass Congress.

The result looks like impasse, and scant improvement in the position of US shareholders in UK companies.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Oct 23 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Mon Oct 22 Index No.	Fri Oct 19 Index No.	Thu Oct 18 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (196)	718.62	+1.0	15.43	6.62	7.92	31.87	711.41	709.01	709.43	862.96
2	Building Materials (26)	974.85	+1.2	15.06	6.25	8.18	40.76	963.51	963.31	967.86	1020.41
3	Contracting, Construction (35)	1164.15	+0.4	17.27	6.85	7.50	58.05	1159.03	1157.23	1155.77	1374.37
4	Electricals (10)	1876.78	+0.5	14.99	7.17	8.17	84.91	1866.63	1862.59	1867.23	2472.35
5	Electronics (26)	1589.05	+0.5	10.58	5.39	12.92	58.17	1581.52	1566.20	1566.32	1872.80
6	Engineering-Aerospace (8)	419.76	+1.1	16.03	5.75	7.50	15.45	415.12	416.82	411.01	0.00
7	Engineering-General (47)	357.90	+0.2	16.74	7.25	7.18	17.38	357.02	361.20	364.57	0.00
8	Metals and Metal Forming (8)	407.40	+2.2	27.97	8.20	4.35	17.02	398.72	401.77	401.57	447.79
9	Motors (13)	278.79	+3.6	18.17	8.63	6.41	14.53	269.11	268.83	271.59	352.37
10	Other Industrial Materials (23)	1209.65	+1.0	13.92	6.74	8.30	60.27	1197.84	1180.20	1176.42	1614.01
21	CONSUMER GROUP (176)	1220.75	+1.1	10.13	4.23	12.19	31.51	1207.38	1201.03	1198.42	1221.42
22	Brewers and Distillers (22)	1526.94	+1.4	10.24	3.87	11.83	33.61	1506.41	1504.48	1506.30	1389.29
25	Food Manufacturing (18)	1020.25	+0.7	11.38	4.79	10.83	28.13	1012.75	1007.53	1005.42	1087.38
26	Food Retailing (17)	2374.89	+0.5	10.05	3.52	12.68	52.68	2362.09	2358.53	2345.28	2327.01
27	Health and Household (16)	2505.24	+1.9	7.06	2.97	16.75	50.32	2457.44	2431.66	2420.52	2345.80
29	Leisure (32)	1212.07	+0.7	12.35	5.35	9.79	44.58	1203.50	1194.60	1201.56	1538.09
31	Packaging & Paper (12)	487.32	+0.7	13.21	7.14	9.30	22.95	483.88	482.49	485.57	526.96
32	Publishing & Printing (14)	2912.73	+0.8	12.32	6.43	10.17	126.51	2888.75	2854.59	2837.04	3451.96
34	Stores (33)	817.30	+0.6	10.79	4.51	12.05	19.51	812.12	810.13	807.34	763.03
35	Textiles (12)	427.38	+1.6	13.97	8.31	9.08	20.45	420.65	418.28	412.97	512.83
40	OTHER GROUPS (107)	986.28	+0.8	12.54	5.95	9.70	32.16	978.01	967.84	963.07	1102.09
41	Agencies (16)	1033.88	+0.8	10.27	3.21	11.79	22.25	1025.36	1028.98	1018.13	1468.48
42	Chemicals (24)	1021.37	+0.5	12.96	6.52	9.12	46.81	1016.05	1001.93	993.73	1196.56
43	Conglomerates (15)	1345.61	+0.6	12.62	7.44	9.55	38.53	1337.20	1322.39	1324.12	1576.34
44	Transport (14)	1909.05	+1.2	12.72	5.50	9.96	67.29	1885.97	1874.75	1859.43	2113.75
46	Telephone Networks(3)	1067.87	+0.1	12.25	5.12	10.62	26.09	1066.49	1055.61	1051.90	1077.70
47	Water(10)	1971.30	+1.2	14.89	6.87	7.60	68.12	1947.60	1919.24	1937.63	0.00
48	Miscellaneous (25)	1549.99	+2.3	12.08	5.81	9.61	61.84	1515.74	1496.87	1475.10	1806.21
49	INDUSTRIAL GROUP (479)	1026.21	+1.0	12.02	5.28	10.19	32.81	1015.99	1009.46	1007.03	1109.02
51	Oil & Gas (21)	2324.12	+1.1	9.63	5.37	13.56	85.44	2298.56	2293.77	2290.67	2118.64
59	500 SHARE INDEX (500)	1132.69	+1.0	11.65	5.29	10.60	37.07	1121.22	1114.77	1112.27	1193.91
61	FINANCIAL GROUP (103)	696.00	+1.2	–	6.83	–	32.89	687.66	687.80	686.50	738.95
62	Banks (9)	748.78	+1.8	21.85	7.70	5.99	42.00	735.79	733.58	736.43	726.62
65	Insurance (Life) (7)	1295.56	+0.4	–	5.93	–	55.82	1290.22	1294.60	1279.68	1234.54
66	Insurance (Composite) (6)	589.57	+1.1	–	7.20	–	32.08	583.40	589.25	582.96	635.85
67	Insurance (Brokers) (8)	844.83	-0.2	8.90	7.60	14.72	41.94	846.79	844.03	830.29	1036.99
68	Merchant Banks (7)	347.50	+0.4	–	5.89	–	12.75	346.02	345.41	344.50	384.63
69	Property (45)	945.03	+1.5	7.78	5.16	16.94	25.45	930.91	926.26	930.32	1154.80
70	Other Financial (21)	245.12	+0.1	11.60	7.12	11.08	11.83	244.90	246.27	245.87	323.07
71	Investment Trusts (66)	1014.63	+0.8	–	3.90	–	25.91	1006.85	1001.10	998.61	1172.66
91	Overseas Traders (5)	1168.95	+1.4	12.24	7.90	9.73	69.98	1153.34	1142.21	1125.47	1312.29
99	ALL-SHARE INDEX (674)	1025.74	+1.0	–	5.49	–	35.66	1015.13	1010.12	1007.82	1084.01

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Oct 22	Oct 19	Oct 18	Oct 17	Oct 16	Year ago
FT-SE 100 SHARE INDEX♦	2127.0	+25.0	2134.3	2120.7	2102.0	2089.0	2082.6	2068.0	2083.6	2149.3

FIXED INTEREST

	PRICE INDICES	Tue Oct 23	Day's change %	Mon Oct 22	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	117.83	+0.13	117.68	–	10.24
2	5-15 years	122.23	+0.21	121.98	–	11.95
3	Over 15 years	124.00	+0.27	123.67	–	9.84
4	Irredeemables	142.34	+0.39	141.78	–	8.85
5	All stocks	122.78	+0.19	122.55	–	11.27
	Index-Linked					
6	Up to 5 years	154.28	+0.04	154.22	–	3.04
7	Over 5 years	138.27	+0.06	138.19	–	3.45
8	All stocks	139.36	+0.06	139.29	–	3.42
9	Debentures & Loans	102.00	+0.03	101.96	–	9.29
10	Preference	73.13	+0.22	72.97	–	5.40

	AVERAGE GROSS REDEMPTION YIELDS		Tue Oct 23	Mon Oct 22	Year ago (approx.)
	British Government				
1	Low	5 years	10.56	10.62	10.02
2	Coupons	15 years	10.82	10.83	9.59
3		25 years	10.83	10.84	9.48
4	Medium	5 years	11.56	11.61	10.90
5	Coupons	15 years	11.27	11.31	9.92
6		25 years	11.11	11.14	9.58
7	High	5 years	11.66	11.70	11.03
8	Coupons	15 years	11.51	11.53	10.14
9		25 years	11.39	11.41	9.74
10	Irredeemables†		11.01	11.05	9.58
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.28	4.28	3.76
12	Inflation rate 5%	Over 5 yrs.	4.39	4.39	3.68
13	Inflation rate 10%	Up to 5 yrs.	3.01	3.01	2.89
14	Inflation rate 10%	Over 5 yrs.	4.20	4.20	3.50
15	Debs &	5 years	13.27	13.27	13.56
16	Loans	15 years	12.77	12.77	12.17
17		25 years	12.44	12.44	11.66
18	Preference†		12.98	13.00	10.57

♦Opening index 2121.6; 9 am 2133.6; 10 am 2125.2; 11 am 2125.7; Noon 2127.1; 1 pm 2126.8; 2 pm 2126.8; 2.30 pm 2126.7; 3 pm 2124.7; 4.10 pm 2126.7; (a) 9.04am (b) 3.21pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	78	1	11
Corporations, Dominion and Foreign Bonds	5	0	16
Industrials	437	185	932
Financial and Properties	259	91	392
Oils	27	23	39
Plantations	3	1	7
Mines	48	17	90
Others	92	35	87
Totals	949	353	1,574

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings Oct. 15
- Last Dealings Oct. 26
- Last Declarations Jan. 24
- For settlement Feb. 4

For rate indications see end of London Share Service

Calls: Aberfoyle Hldgs., Amstrad, Applied Holographics, Davy Corp., ML Labs., Tusker Res. Puts: McCarthy & Stone, Tusker Res. Put & Call: Tusker Res.

LONDON TRADED OPTIONS

STOCK index futures led the cash market higher yesterday as a strong institutional buyer emerged. Meanwhile, in the traded options market there remained an active seller of index calls.

The December FT-SE 100 index continued its advance as an institution, said to be Prudential, bought 1,200 contracts through a floor broker on the London International Financial Futures Exchange.

Analysts said with the fall in oil prices and strength in overseas markets, futures had been due to advance.

December FT-SE closed at 2,180, up 28 points on the day. Its premium over the cash index ended at 54.

Brokers estimate that taking future dividend payments and the cost of finance into consideration, December should only be 35 points above the cash index, indicating the more bullish stance in the futures market.

In the options market, dealing levels were down on the previous session, reflecting the recent lower levels of activity on the stockmarket. A total of 28,805 contracts changed hands, and was weighted towards calls.

The FT-SE index options continued to attract attention. One house, said to be Kleinwort Benson, sold 2,500 December 2,400 calls. The FT-SE index traded 10,062 contracts, split evenly between calls and puts.

Among the stock options, Sears was the busiest. A broker crossed 1,750 December 100 calls, and that accounted for the bulk of the session's business.

Turnover in Glaxo was lifted by call trading. James Capel sold 750 December 800 calls. Racal was lifted by bid speculation. It traded 1,636 contracts as puts and calls were sold.

Lucas traded 1,365 as the March 110 calls were sold and March 130 calls were purchased.

British Steel was next on the list as 1,268 changed hands, most of which were calls.

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Allied Lyons (*487)	460	49	67	72	13	18	24
	500	25	40	47	32	35	41
	550	11	22	–	68	69	–
[illegible]							

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Trafalgar (*202)	200	18	28	29	23	28	35
	220	9	19	–	36	42	–
[illegible]							

Option		Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
Amstrad (*62)	60	7	11	13½	4½	7	8½
	70	3	6½	9	11	12½	14
Barclays (*372)	360	–	48	55	–	27	38
	390	–	30	40	–	42	45
[illegible]							

UK COMPANY NEWS

Customer destocking cuts McKechnie to £28.1m

By Clare Pearson

PRE-TAX PROFITS of McKechnie, the plastics and metal components group, fell 28 per cent to £28.09m in the year to end-July following reduced demand for its products both in the UK and Australasia.

However, a same-again final dividend of 9.75p means the yearly payment is maintained at 14.75p. Mr Jim Butler, chairman, said he believed the company had "weathered the worst of the downturn" although the outlook was still uncertain.

"In about 75 per cent of the group end-user demand is down year-on-year, but only a third is still experiencing the disruptive effects of destocking," he said of the current situation.

During the year, there had been a sharp decline in UK housebuilding and DIY consumer sectors followed by erosion of demand in other sectors and in April "an even more precipitous" fall in building and construction activity in Australasia.

Mr Butler said destocking appeared to be over in McKechnie's UK housing and DIY-related businesses and in stainless steel tubing. The plastic components division was being helped by sales of some new products for the motor industry.

On the sale of McKechnie's extruded products division to Trelleborg, the Swedish industrial group, which has been referred to the Monopolies and Mergers Commission, Mr Butler said he expected a positive outcome "later in the calendar year." He said both McKechnie and Trelleborg were convinced the deal was not against the public interest.

Terms of the sale, originally worth £37m, have beenchanged in the last two months. The price has been reduced slightly and McKechnie will collect the division's debtors, rather than warranting them.

Turnover was £361.04m (£360.68m). With a considerable proportion of borrowings in foreign currencies, net interest payable stood at £6.56m (£6.65m). Earnings per share fell to 23.8p (33.6p).

By division, operating profits in plastics amounted to £12.48m (£14.08m) and metals £8.74m (£11.42m). Consumer products plummetted to £4.74m (£11.62m) while specialist products were maintained at £8.68m.

There was a second half improvement in the performance of McCourtney, the US plastics company which had earlier suffered the slashing of an order from a major customer.

By geographical area, UK and Europe accounted for 70 per cent of operating profits, New Zealand and Australia 15 per cent and South Africa and the US made up the balance.

Trevor Humphries

Jim Butler (left) and Michael Ost, chief executive

● COMMENT

One of the first companies to be hit by the UK economic downturn, it could be argued McKechnie is one of the first to qualify as a buy for recovery in the housebuilding and consumer products markets. Certainly the company is indicating it is finding current markets much more manageable than six months ago when it was engaged in a hopeless struggle to catch up, in cost terms, with rapid destocking. However, the outlook is still deeply uncertain. McKechnie is also in the unfortunate position that even as its European activities stabilise currencies in its other markets are turning against it. Uncertainty over the sale of the extrusion division complicates forecasts but, leaving that aside, pre-tax profits are likely to be slightly down at about £27.5m this year. The prospective p/e is about 8.8 but the real attraction is the yield: a solid 10 per cent assuming dividends are maintained.

Shandwick cheers PR sector with 41.5% gain

By Andrew Bolger

SHANDWICK, the world's largest public relations group, cheered the depressed marketing services sector yesterday by reporting a 41.5 per cent increase to £20.95m in pre-tax profits for the year to July 31.

Operating income rose by 41 per cent to £103.19m and earnings per share were 26 per cent higher at 18p. A final dividend of 2.61p lifts the total for the year to 3.5p, a rise of over 37 per cent.

Mr Peter Gummer, chairman of the acquisitive UK-based group, said: "New business prospects have never been better and the resilience of PR consultancy in these difficult times for our clients is well supported by these results. We therefore look forward to another successful year."

Shandwick said that even with the completion of acquisitions in the year giving rise to £7m of earn-out liabilities, the group had reduced such liabilities from £69m at July 31 last year to £40m a year later. Management believed these earn-outs could be funded entirely from the cash-flows of the earn-out companies.

Mr Gummer said: "Since the half-year, net debt has dropped from £34m to below £28m. Although debt levels will fluctuate during the current year, we expect, as the highest annual earn-outs have now been paid, a further reduction by July 1991.

"In the following four years, as annual earn-out commitments estimated at £9m per annum are satisfied, borrowings will be eliminated."

Shandwick said continuing demand from multinational clients seeking global PR programmes had exceeded expectations. During the year, some £6m of annual fees had been awarded and negotiations were continuing with 15 prospective clients, each of which command annual retainer fees of more than £1m.

The geographical split of business is about 50 per cent in North America, 28 per cent in Europe and 22 per cent in Asia.

● COMMENT

Shandwick's shares rose 8p to 120p, which showed organic growth continuing at over 20 per cent. Analysts are expecting pre-tax profits of about £25m next year, which puts Shandwick on a prospective multiple of 6. The low rating reflects sentiment towards a sector which has been traumatised by the crisis at Saatchi & Saatchi and the demise of Michael Peters. The market is also wary of a company which has been quick to issue paper at any sign of strength in its share price. Shandwick may be entering a new phase, however, with earn-out liabilities and debt set to fall over the next few years. Mr Gummer does not completely rule out further in-fill acquisitions, but says his international network is largely complete. Shandwick hopes its average fee of only £35,000 per client will make it more recession-proof than the more cyclical advertising industry. The shares are likely to benefit from any lessening of the prevailing economic gloom, although the weakness of the dollar will not help in the short term.

New broom sweeps a minefield

Richard Gourlay considers the problems at Astra Holdings

WHEN Mr Roy Barber arrived in March at the exclusive St James's headquarters of Astra, the munitions manufacturer which last week announced losses of £65m, he knew he was stepping into a minefield.

The City institutions, led by 3i and Prudential, which appointed him, knew the company's position was perilous but the extent of the troubles only emerged last week when it belatedly released unaudited results for the year to March 1990.

"The size of our losses is most likely a surprise," said Mr Tony McCann, the new chief executive brought in by Mr Barber. "But at least the shareholders can now see what they have got."

Less than 18 months after they paid 120p in a rights issue for shares which stood at 6p at last night's close, it is about all the shareholders can be thankful for.

The company had expanded quickly since its listing in 1986 with an acquisition each year, making it hard for outsiders to recognise problems which only came to light later.

The string of acquisitions culminated in the £22m purchase of Poudreries Réunies de Belgique (PRB), bought with part of the proceeds of the July 1989 rights issue. The Belgian munitions company was later investigated by the public prosecutor in relation to its role in the "Iraqi supergun" affair.

PRB collapsed in July this year with losses of £12m, against which Astra provided an extraordinary item of £18.3m in its unaudited accounts. Though Gechem, which sold PRB to Astra, had given a warranty on forecast profits, Mr Barber said that this was not effective and did not apply once the company had moved into the red.

The failure to obtain effective warranties was "unusual in view of PRB's history of losses and commercial problems," he said.

In March this year, the board asked Mr Gerald James to step down as chairman of Astra. Later that month, Mr Christopher Gumbley, the chief executive, resigned. He was subsequently charged with corruptly giving a BMW car to a Ministry of Defence official.

Greek police inspect steel tubes thought to be part of an Iraqi supergun. Astra's PBR subsidiary delivered missile propellants, believed to be for the gun, to Jordan

Four other directors resigned by the middle of April. At the request of Mr Barber, the Department of Trade and Industry is now investigating the PRB acquisition and the rights issue.

Shareholders are likely to ask some tough questions at the annual meeting on November 12 about the roles played by Stoy Hayward, the auditors, and PaineWebber International, the financial adviser to Astra at the time of the rights issue.

According to Mr Barber, Astra was in breach of loan covenants on its £50m credit facility from the beginning of 1989. Stoy Hayward said that by the time it signed off the accounts in July, Astra had come to an agreement with its bankers which meant it would no longer be in breach of the loan agreement.

Mr Barber said that Astra only briefly complied under the new bank agreement, which was conditional on the rights issue and the PRB acquisition going ahead, when the loan proceeds came in.

PaineWebber's role as financial adviser in the rights issue, for which they are claiming £500,000, has led to litigation.

In the rights issue document, which was underwritten by stockbrokers Hitchens Harrison, shareholders were told by Astra's chairman: "your board, which has been advised by PaineWebber and by Hitchens, considers that the rights issue and the acquisition are in the best interests of Astra and its shareholders." Shareholders are likely to want to ask how that assurance could be made.

Astra has refused to pay PaineWebber's fee on the grounds that it had not performed the services it should have performed as the company's financial adviser. The High Court is expected to decide today on PaineWebber's claim that Astra has no defence for not paying its fee.

One institutional investor said yesterday that at the time of the rights issue the subject of breaches in the loan covenants was not raised. "Any such breaches would be material to investors, especially in the context of a company raising new equity finance," he said.

As well as paying for the PRB acquisition, the rights issue raised £11.5m for what Astra called its "ongoing requirements", part of which was repaid to the banks.

The rights issue is not the only contentious issue. The unaudited results for the year to March 1990 show an exceptional write-off of £4.1m covering obsolete inventory.

"With benefit of hindsight, Astra continued high levels of production when sales prospects were very vague, resulting in high inventory levels," said Mr Barber.

Mr Barber also questioned the decision ahead of the rights issue to revalue a weapons testing site at Faldingworth at replacement cost. This helped boost net assets. Restating Faldingworth at original cost less depreciation, and other fixed assets at realisable value, led to an £18.2m extraordinary loss in the results just released.

The rights issue was launched on July 17 1989 on the back of profits for the year to March 1989 of £9.5m. During the next six month period Astra would swing sharply into the red, reporting a £3.4m pre-tax loss, compared with a £4.05m profit at the same stage the year before.

So what do Astra shareholders have left and what are its prospects? Its net assets have been cut to £22.7m and it has the support of its bankers for its programme to cut debt, at present standing at £38m.

Some 95 per cent of its turnover is defence related, from Astra Defence Systems, formerly British Manufacture and Research Company which was acquired in 1988. Most of its sales are to the US Department of Defence.

Like every other defence company, it is searching for diversification while expressing cautious optimism that uncertain events in the Gulf may benefit short-term sales.

What is certain, according to the new chief executive, is that while profits might not end next year in the black after interest, Astra will not produce the kind of bombshell it dropped this week.

Densitron falls to £376,000

In spite of a growing order book, first-half profits of Densitron International continued the disappointing trend experienced throughout 1989.

From turnover £2.72m ahead at £13.07m, the taxable result for the six months to end-June worked through 32 per cent lower at £376,000.

Directors said that following currency fluctuations and delayed deliveries from suppliers forecasts for the remainder of the year were difficult to make.

The interim dividend is held at 0.7p from earnings of 1.18p (2p).

For the 1989 year the group, which manufactures a diverse range of electronic components on an international basis operating primarily from Japan, the UK and the US, saw its pre-tax profits fall from £1.63m to £1.11m.

Brierley increases his stake in Tyndall to 9.1%

By Andrew Hill

IEP SECURITIES, a vehicle for Sir Ron Brierley, the New Zealand entrepreneur, has increased its stake in Tyndall Holdings, the UK financial services company, from 7.5 per cent to 9.1 per cent.

Mr Richard Horton, Tyndall's finance director, said yesterday that the group was not concerned about the growing IEP stake. "They have been shareholders for some years," he added.

Mr Garnet Harrison, Tyndall's chief executive, resigned a month ago to pursue negotiations with the group about the possible buy-out of its Australian financial services interests.

Tyndall has written down the value of its interest in Tyndall Australia, but as a result has a deficit on distributable reserves which it hopes to eliminate through a capital reconstruction.

Mr Horton said yesterday that discussions with Mr Harrison and other Tyndall Australia managers were continuing and the group hoped to announce further details before the end of the year.

Waterglade sales

Waterglade International Holdings has disposed of five property developments in Hamburg with a total site value of DM88m (£30m) to the Reinhold Group of Sweden. Net consideration totals DM12.71m which, together with the settlement of £276,000 in inter-company loans is payable in cash.

Barbican rises 42% to £1.28m

Profits of Barbican Holdings, a Third Market-quoted trader in the property and industrial sectors, rose from £901,000 to £1.28m pre-tax for the year to end-June 1990.

The 42 per cent improvement was struck on turnover £6.67m higher at £8.94m. Interest charges amounted to £1.18m (£353,000).

Directors said net assets had increased by over 60 per cent to £13m and that gearing had been restricted to 50 per cent. They hoped to be able to report progress in the accounts regarding a move to the USM, plans for a consolidation of the ordinary shares and payment of the arrears of the preference dividend.

Value and Income nav slides to 70.2p

Net asset value per ordinary share of Value and Income Trust, which is 28.55 per cent-owned by Barclays, totalled 70.2p fully diluted at September 30, against 75.5p six months ago and 76.5p a year earlier.

Income for the half year to September 30 rose from £1.93m to £2.1m, of which securities contributed £841,000 (£788,000) and rents from investments properties £1.05m (£973,000).

After-tax income improved to £685,000 (£570,000), equal to earnings per share of 1.82p (1.25p). The interim dividend is raised to 1.35p (1p) and a final of at least 1.35p is forecast for a minimum 2.7p (2.2p) total.

UK COMPANY NEWS

Bryant makes £38m cash call to buy more land

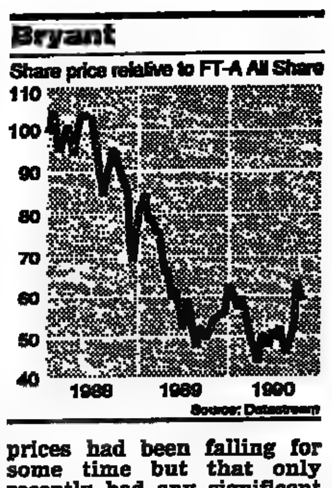
By Richard Gourlay

BRYANT, the housebuilding and development group, yesterday announced it was raising £38m in what is likely to be the first of a new round of rights issues from builders, stating that it believed land prices had bottomed out.

The company said it would use the proceeds to buy land over the next year to take advantage of the what it anticipates will be an increase in house prices as interest rates fall.

The fully underwritten one-for-four rights issue is priced at 77p – a 17 per cent discount to the 92½p at which the shares closed yesterday.

The immediate effect will be that Bryant can pay down its debt currently standing at £49m. This has risen from £25m at its year-end in May this year as a result of a tax charge and an increase in land purchases and work in progress. Associate company debt attributable to Bryant amounts to £27m.



Mr Michael Chapman, finance director, said that land prices had been falling for some time but that only recently had any significant quantity started to become available on the market.

Bryant had chosen a rights issue at this time partly because it was aware other building companies would be going to the market for funds and it wanted to be "ahead of the game".

"We are taking the cash now to strengthen that balance sheet to take advantage of the opportunities as they arise in the next six months," Mr Chapman said.

Pre-tax profits for the year to end-May were down 61 per cent at £20.1m. During that year Bryant made a £29m provision covering a revaluation of land it bought at the height of the market in 1988.

Bryant spent over £80m topping up its land bank in 1988, compared to less than £40m last year and about £55m it would spend in an average year.

The group currently has 7,200 plots of land valued at £20,000 a plot and 3,400 options to buy at a discount to market price.

Analysts say Bryant is not alone in thinking that land prices are bottoming out. In the last six months a number of cash rich companies have been buying land when it appeared on the market.

See Lex

More delay over Brent Walker bond details

By Maggie Urry

THE DELAYED listing particulars for Brent Walker's £103.3m convertible capital bond issue are now not expected to be posted to shareholders until early next week.

The group, which operates betting shops, pubs, hotels and leisure complexes, announced the 13 per cent bond issue last month.

Then it said the document would be posted by October 3. On that day it announced that there would be a delay in producing the document, but had hoped to post it early this week.

However, bankers working on the listing particulars now say that they will probably be sent out at the last possible moment.

The bond issue is conditional on the approval of shareholders and on the Stock Exchange granting a listing by November 15.

Calling a special meeting for shareholders' approval requires two weeks notice, which sets a final date for the posting of the document of early next week.

Brent Walker said the document had been held up because it wanted to include details of its sale of the bulk of its Goldcrest film business to a management buy-out.

Bankers working on the circular, which is expected to be a lengthy document, also said the complexity of the issue and of preparing an up-to-date indebtedness statement, delayed its preparation.

Brent Walker last month published an unaudited balance sheet dated July 15 which showed net debt of £1.15bn. That included £160m which it is claiming back from Grand Metropolitan, the drinks, food, pubs and restaurants group, in a dispute over the £685m price paid when it bought the William Hill and Mecca betting shop from GrandMet last December.

Brent Walker withheld £50m of the buying price and GrandMet is suing for payment.

The bond issue converts into Brent Walker shares at a price of 140p. The shares, which stood at 375p in February, fell to 60p last week. Yesterday they rose 4p to 74p.

Wolseley profits static at £121m as slump in building industry takes toll

By Richard Gourlay

WOLSELEY, the distributor of building materials and plumbing and heating equipment, yesterday announced pre-tax profits for the year to end-July almost unchanged at £120.7m but warned that market conditions had become increasingly difficult.

An improvement in trading profits in US and UK distribution divisions was offset by the building slump in the UK which hit sales of electrical products and window furnishings.

The outcome, up from £120.2m, came from a 12 per cent increase in turnover at £1.85bn.

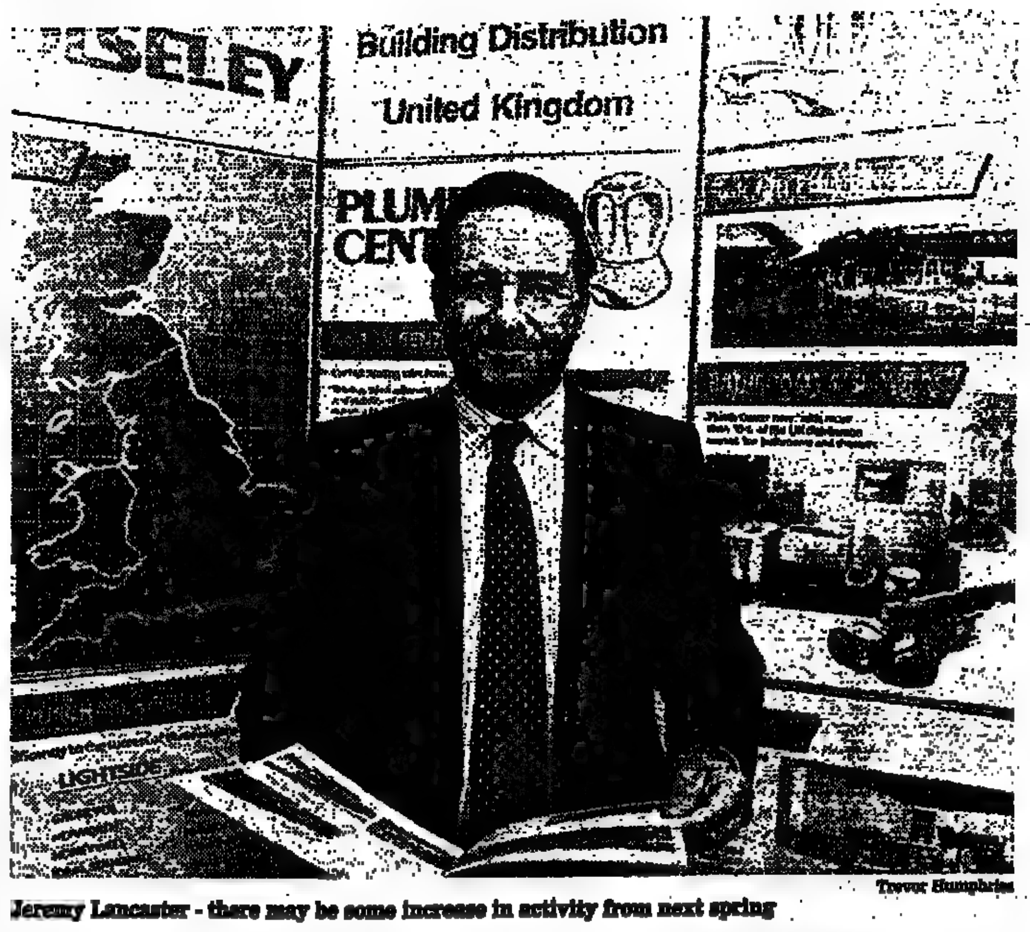
A recommended final dividend of 9p makes a total of 12.1p – a 10 per cent increase on 1989's 11p.

Mr Jeremy Lancaster, chairman, said trading had become increasingly difficult towards the end of the year and remained tough but there was some hope for an improvement. "If the recent reduction in interest rates is a presage for further falls, the UK building cycle may now be near or at its bottom," he said "There may be some increase in activity from next spring."

During the year gearing increased from 24.6 per cent to 28.4 per cent mainly as a result of the acquisition of Needwood Holdings, a builders' merchant, from receivers just before the year-end.

Wolseley paid £26m for the company including 35 locations which are being integrated into its builders' merchant and plumbing activities.

The US contributed £57.2m of trading profit, 44 per cent of the group total, on sales up 18 per cent at £1.03bn. Demand at Familian Northwest, the US West Coast building distributor, remained firm and offset a downturn in California. The lower dollar and the downturn in the US economy will result in slightly lower pre-tax profits from the US this year, Mr Lancaster said.



Trevor Humphries

Jeremy Lancaster - there may be some increase in activity from next spring

The UK distribution division achieved marginally higher trading profits at £47.9m from sales up 8 per cent, accounting for 37 per cent of group profits. The merchant business and plant hire operations were hit by the continued downturn in construction and housebuilding in the south east of England.

UK manufacturing's share of group trading profits fell from 26 per cent to 19 per cent. Sales edged ahead but profits fell 24 per cent to £24.6m.

In addition to the fall in sales of electrical products, which was related to the building slump, demand for farm machinery fell. Mr Lancaster said the UK manufacturing would experience another difficult year.

See Lex

Successful recipe at Le Creuset

Le Creuset, which makes cast iron cookware and oven-to-tableware at its base in Fresnoy-le-Grand, northern France, expanded pre-tax profit by 48 per cent in the first half of 1990.

Highlights included the commissioning of new automatic casting equipment, encouraging reception to new barbecues, fondues and earthenware products, and continued investment in consumer communication programmes.

Turnover of the USM-quoted group rose 8 per cent to £15.83m (£14.7m) while the profit worked through to £970,000 (£655,000), after net interest charges of £348,000 (£371,000). Earnings were 3.9p (3.4p) and there is an interim dividend of FFr0.13.

The strong cash flow was expected to reduce borrowings in spite of significant capital expenditure, with a resultant lower annual interest charge, said Mr Paul van Zuydam, chairman.

Canadian bank silent on Polly Peck court move

By Bernard Simon in Toronto

NATIONAL BANK of Canada yesterday declined to give any details of its exposure to Polly Peck International or the reason for its decision to seek a winding up of the company.

The Montreal-based bank has become the first of Polly Peck bank creditors to apply in the High Court in London to have the fruit and electronics company wound up.

Its petition is not scheduled to be heard until December 12, but could have the effect of freezing Polly Peck's accounts.

National, the smallest of Canada's "big six" banks, has come under some pressure recently as a result of its substantial exposure to Campeau Corporation, the floundering real estate and retailing group, and to the fast-weakening Quebec economy.

Mr Roy Palmer, analyst at stockbroker Bunting Warburg in Montreal, said the bank had become more aggressive in staking its claims on overdue loans.

National's net income slid by two thirds in the three months to July 31, largely as a result of extra provisions for non-performing loans – the bulk of which were made to Mr Robert Campeau, Campeau's founder.

The bank, with assets of C$37bn (£16.2bn) has pushed up its estimated 1990 loan losses by C$100m to C$246m.

National's falling share price torpedoed a C$95m rights issue earlier this month to strengthen its capital base. Subscriptions fell C$37m short of the target.

Canada's superintendent of financial institutions, the main banking regulator, recently completed its annual review of National's outstanding loans. An official in the superintendent's office said yesterday that the regulator was comfortable with its portfolio.

FR falls by 9% as defence squeeze bites

By Andrew Hill

FR GROUP, the aviation products group which makes 65 per cent of its sales in the defence sector, yesterday reported pre-tax profits down 9 per cent and earnings 11 per cent lower in the first half of 1990.

Analysts expect FR, which specialises in air-to-air refuelling equipment, to turn in another static profits performance for the full year, as the squeeze on defence expenditure continues worldwide.

Pre-tax profits were £10.8m, compared with £11.9m in the first six months of 1989, while earnings dropped from 10.8p to 9.6p. The interim dividend is again 2.23p.

The group said it had been awarded three contracts which would benefit the company in 1991 and beyond. The most significant were orders from the UK and French defence ministries for Falconet target aircraft.

Mr Giles Irwin, finance director, said yesterday: "We don't see ourselves pulling out of defence. We do recognise that it's a difficult marketplace but the Gulf crisis has made people realise that there is still a defence industry: if you are in the right areas, there will be a continuing and a profitable need for defence products."

FR could also benefit from windfall gains in the Gulf crisis if "significant business inquiries" from the armed forces bore fruit, although Mr Irwin said the group was not counting on such gains.

He did concede that the prospect of substantial increased revenue from subsidiaries supplying major US and European missile programmes was in doubt, although orders have not yet been cancelled.

Mr Irwin said the group was putting a lot of effort into non-defence products – which include aviation fuel system and pneumatic components, oxygen equipment and pipe couplings – but added: "The large contract awards are still in the military side of the business."

Turnover during the first half rose from £78.4m to £86.7m and interest receivable was slightly lower at £2.1m (£2.8m).

● COMMENT

FR shot down its share price in February with a profit warning and since the beginning of the year the shares have fallen from 238p, closing last night at 122p, down 5p. The group stresses that it is in a long-term industry, but shareholders are undoubtedly asking themselves how long they will have to wait for refuelled earnings growth. Earnings in 1988 were 20.4p, and 20.75p last year; for 1990 analysts are forecasting profits of £21.5m or £22m before tax, and earnings of about 19.6p, with a modest increase to 20p expected in 1991. The quality of FR's businesses is not in doubt, but Gulf crisis or no Gulf crisis, defence procurement agencies worldwide are counting the pennies. FR shares are probably worth holding, if only for the slim possibility of a bid. That said, even on a multiple of 6 times forecast earnings this year there are few excitements in prospect for investors.

Pressac ahead 19% to £2.68m

By Andrew Jack

HIGHER MARGINS and a recent acquisition helped Pressac Holdings, the electrical and electronic components group, lift pre-tax profits by 19 per cent, from £2.25m to £2.68m, in the year ended July 31. This was achieved despite a static turnover of £32.44m, against £32.85m.

Mr Geoffrey White, chief executive, said yesterday: "We felt the downturn as early as autumn 1988 and we have been able to react. Our actions are now bearing fruit." The shares closed 10p up at 86p.

The Nottingham-based group last year launched an efficiency programme which had reduced costs significantly, while prices remained generally static.

The break-even point in Pressac, which makes wiring harness assemblies, had been reduced by over 20 per cent, said Mr White. "The programme has now been extended across the group and will be a continuing feature."

PJ Mason, a manufacturer of components for neon signs which was bought for £5m in February, contributed £289,000 pre-tax in the five months since purchase.

The acquisition increased interest charges to £437,000 (£247,000). The borrowings were in dollars and fixed at 10 per cent, said Mr White. Gearing now stood at 62 per cent.

Turnover rose by 15 per cent in the automotive division, which represented 44 per cent of group sales. Sales to the US grew by 49 per cent, a significant part of which a contract with General Motors to supply 65 per cent of its flexible circuitry for cars.

Telecom, which manufactures telephone plugs and sockets, saw turnover reduced by 39 per cent to £5.1m as a result of destocking by British Telecom which lasted until April. Turnover fell 25 per cent to £4.6m in the wiring division.

Mr White reported that order books were strong and at higher levels than last year.

Earnings per share rose to 9.79p (8.06p). The final dividend is 1.65p, making 2.4p (2p).

● COMMENT

Pressac has engineered an impressive turnround after disappointing interims, when pre-tax profits fell by 12 per cent. The company is proud of the fact that it was among the first to feel the impact of the consumer downturn two years ago. It has learnt the lesson since, diversifying out of the UK and consumer goods, and making substantial cost cutting measures. That has helped boost margins in a volume business where price rises are not feasible. New contracts from General Motors and renewed purchasing from British Telecom will help turnover, while adding assembly work in its US factory will boost dollar reserves. On £3.3m pre-tax profits for the current year, the multiple is about 7, with the shares somewhat undervalued.

Boxmore advances 20% to £1.55m

Improved margins helped Boxmore International to increase first half pre-tax profits by 20 per cent, from £1.29m to £1.55m.

The group, a USM-quoted packaging organisation, is based in Belfast.

Turnover expanded by 18 per cent to £9.65m, and operating profit advanced 29 per cent to £1.21m. There were no interest charges (£3,000). Earnings per share came to 11.5p (8.9p) and the interim dividend is pushed up to 2p (1.7p).

Swedish buy for ICL

ICL, Britain's largest computer manufacturer, is to purchase Databolin Information Systems, a Swedish software company, for £10m.

In the deal, ICL will acquire Databolin subsidiaries in Denmark, Finland and Norway.

STC, the parent company, has agreed to sell ICL to Fujitsu of Japan, which intends to use it for expanding its European operations.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Boxmore Intl §	int	2	Dec 6	1.7	-	5.55
Cambridge Gp	int	0.44	-	-	-	0.27
Densitron	int	0.7	Dec 14	0.7	-	2.35
FR Group	int	2.23	Dec 12	2.23	-	6.37
Le Creuset §	int	0.13‡	Nov 28	-	-	0.24
McKechnie	fin	9.75	Jan 15	9.75	14.75	14.75
Plasticisal §	int	1.5	Dec 1	-	-	3
Pressac	fin	1.65	Dec 6	1.5	2.4	2
Shandwick	fin	2.61†	Dec 17	1.8825	3.5	2.55
Value & Income	int	1.35	-	1	-	2.2
Wolseley	fin	9	Jan 31	8.2	12.1	11

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡French Francs. ♣Irish currency.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Bimec Industries, Brown (N), Smiths Industries, Sunleigh.

Finals- Overseas Inv Trust.

FUTURE DATES

Interims-

Babcock Intl	Nov. 20
Blackland Oil	Oct. 31
Blacks Leisure	Oct. 29
British Steel	Nov. 12
De La Rue	Nov. 13
Mezzanine Cap & Inc Trust	Oct. 31
Petrocon	Oct. 25
Powerscreen Intl	Oct. 30
Regalian Properties	Nov. 14
Stilch	Oct. 31
Stratton Inv Trust	Nov. 12
Walker & Staff	Nov. 27

Finals-

Bremner	Nov. 9
DAKS Simpson	Nov. 1
Fleming Japanese Inv Tst	Oct. 25
Low (William)	Oct. 30

Telfos shares tumble after resignation of chief

By Maggie Urry

SHARES IN Telfos Holdings, the Leeds-based locomotive and rolling stock, investment and property group, yesterday slumped 27p to 73p after Mr Jonathan Malins, chief executive, resigned, apparently after a boardroom disagreement. Mr Edward Duke, another director, is becoming managing director.

Last night Mr Malins said he would not comment on his departure.

The group published a brief statement reiterating its determination to withdraw from the investment and property business, which it said were non-core activities. Interim results, announced earlier this month, showed these businesses incurred losses of £399,000 in the first half.

The group, which made a £13.9m rights issue at 180p in July, said it would advise shareholders of any provisions which would have to be made against the divestments. The group is also closing its London office.

Telfos said that its core business was continuing to trade well and the cash position was strong. At the closing price the group is valued at £23.1m.

Earlier this year Telfos won a £81m contract to build new rolling stock for British Rail and last year took a 51 per cent stake in a Hungarian railway engineering group.

RMC injunction

RMC said a court injunction won by a competing bidder during its negotiations for the formerly state-owned Rudersdorf cement group in eastern Germany had been lifted.

In spite of the injunction from Holderbank of Switzerland RMC announced earlier this month that it would be a major participant in a joint venture with other German companies to establish a building materials operation in eastern Germany.

COMMODITIES AND AGRICULTURE

Crude oil partly recovers Monday's losses

CRUDE OIL prices yesterday recovered part of the heavy losses recorded on Monday, when oil fell by more than $5 a barrel, writes Steven Butler.

Brent oil for December delivery finished the day up $x.xx at $xx.xx a barrel in European trading. On the New York Mercantile Exchange, where trading rules limited the December contract to a $3 fall on Monday, December West Texas Intermediate (WTI) crude fell by 71 cents to $29.70 at midday.

Prices shot up by more than $2 a barrel in early London trading after remarks by Prince Sultan bin Abdul-Aziz, the Saudi defence minister, who said his comments on a concession to Iraq had been misinterpreted. He repeated a call for Iraq to withdraw unconditionally from Kuwait.

In the US, President George Bush ruled out any compromise with Iraq comparing Iraq's invasion of Kuwait to Hitler's invasion of Poland.

President Bush's comments, however, had little impact on markets, where traders appear to have concluded that a war that could lead to disruption of Saudi Arabian exports looks unlikely in the short run.

Cargoes of dated Brent, for delivery in 15 days, were yesterday selling at a slight discount to November contracts, indicating the absence of distressed buyers willing to pay a premium for prompt cargoes.

Brent also appears to have re-established its traditional discount to WTI of about $1, indicating that dislocations caused by the halt of Iraqi and Kuwaiti exports has worked through the system.

Gas industry changes in the pipeline

Steven Butler reviews a book calling for an increase in competition

EUROPE's natural gas industry is unlikely to be pleased by the publication yesterday of Mr Jonathan Stern's book European Gas Markets.

Mr Stern, head of the energy and environmental programme at the Royal Institute of International Affairs, is one of just a handful of independent experts on the industry. As such he has credibility when he calls for more competition among gas suppliers in the liberalised environment of a single-market Europe. This could signal big changes ahead for the industry.

Opportunity for growth in the industry over the next two decades is exciting, Mr Stern argues, with the potential for gas to double its share in the energy market. This could happen because gas is abundant and has fewer environmental detractions than any of the competing fuels.

At the same time, he says, rapid growth in gas consumption is not a foregone conclusion. The industry will have to meet several important challenges, including arranging for secure supplies from outside the European region and adapting to a more competitive market.

For several years, the gas industry has lobbied hard in the European Commission against any moves to promote gas-to-gas competition within the industry, on the American or British pattern. Currently, pipeline operators on the Continent operate, *de facto* or *de jure*, territorial monopolies on gas distribution. They generally buy all the gas that passes through their pipelines and then sell it on to other distributors or consumers.

The only competition is provided by alternative fuels, such as coal or oil products.

The European Commission has been toying with the idea of promoting competition by forcing pipelines to transport gas for others for a fee, thereby, giving consumers a choice of suppliers.

Against this the industry has assembled a range of powerful arguments. The most important of these is that if pipelines loose the security of their markets they will:

● firstly, be unable to meet contractual obligations to purchase gas from producers in, say, the Soviet Union or Norway, and;

● secondly, they will be unable to finance multi-billion dollar pipeline and gas development projects unless they can be sure other gas suppliers will not take their markets away.

Mr Stern accepts these arguments, unlike the European chemicals companies, which have been the biggest proponents of change. He still advocates reform but wants pipelines to be opened only in a manner that neither forces them to abrogate current contracts nor prevents them financing large, new infrastructural projects.

According to this idea, pipelines should be required to carry gas for others when they have spare capacity, the use of which would not threaten existing contracts. A more radical solution, Mr Stern suggests, would be to declare pipelines "open-access", or available for third party use, after the expiry of initial term contracts that underwrote construction of the line.

He notes, however, that any move to open the pipelines would require a regulatory system with teeth. He cites the UK experience with the Office of Gas Supply to argue that such a system need be neither large nor cumbersome. Yet opponents will dredge up the case of the US to argue that creeping regulation, once started, will undermine the industry's foundations and grow to unwieldy proportions.

Aside from regulatory issues, Mr Stern points out that the projected demand increase for all Europe from 370bn cubic metres in 1989 to 650bn cu m in 20 years, would require new sources of supply in areas now considered politically unstable.

"Non-European suppliers would account for more than half of total demand by 2010 and the USSR on its own for nearly one-third." Supplies are abundant in Siberia, Africa and the Middle East, but all would require transit across potentially unstable areas, raising important security issues.

Mr Stern also argues that the industry will become more pluralist with the arrival of power generators purchasing large volumes of gas and independent companies laying new pipelines. "The situation which has evolved over the past two decades, where one or two individuals in a handful of companies take virtually all decisions of any consequence for the industry, is not likely to continue under conditions of large-scale market expansion."

European Gas Markets, however, is not primarily a polemic tract, but rather a concise history of the gas industry in Europe and the prospect for its continued development. Mr Stern even jokes that he has spent his professional life as an expert on "the boring fuel", for which he foresees a future that is anything but boring.

European Gas Markets: Challenge and Opportunity in the 1990s. Royal Institute of International Affairs. Published by Gower Publishing Company, Gower House, Croft Rd, Aldershot, Hants GU11 3HR. Price, £25.00.

Natural gas reserves of major current and potential producers and exporters to Europe

Country	Proven reserves (bn cu m)	Probable reserves	Proven reserve life*	Probable reserve life*
UK	590	1,765	13	40
Norway	2,250	3,000	80	107
Netherlands	1,730	1,877	26	28
Germany	188		11	
Italy	290		17	
Romania	182		5	
Soviet Union	40,000†	60,000	52	78
Algeria	3,700	5,000	82	111
Libya	722		82	
Nigeria	2,476		52	
Iran	14,200		710	
Qatar	4,621		714	
Abu Dhabi	5,180		401	

*In years: reserves divided by 1988 production. †Lower estimate.

BP and Statoil sign on Caspian Sea drilling venture

A BRITISH-Norwegian partnership has signed a letter of intent with the Soviet Union to establish a joint venture for offshore oil drilling in the Caspian Sea near Baku, a British Petroleum (BP) official said yesterday, Reuters reports from Moscow.

BP and Norway's Statoil signed the agreement with Caspmorneftegaz, an Azerbaijani oil production enterprise according to Mr Richard Jones, BP's representative in Moscow.

BP and Statoil may be just the first of many western companies to participate in developing Baku's oilfields. Western companies are avidly seeking substitutes for unstable Gulf oil supplies, while the Soviet Union is looking for ways to increase flagging output while world prices are high.

According to Mr Jones, Caspmorneftegaz representatives indicated they were interested in having western companies compete for business.

In addition, the Soviet oil and gas ministry has asked a group of western companies to submit plans for developing Azerbaijani oil this week.

Six foreign oil companies were in Baku last week discussing oil projects with Azerbaijani officials, Kommersant, the business weekly, stated.

Azerbaijan accounts for about 5 per cent of Soviet output, and is considered high grade containing little sulphur.

Aluminium production costs rising, says study

By Kenneth Gooding, Mining Correspondent

THE COST of producing primary aluminium has risen sharply in the recent months, according to the Anthony Bird and Associates consultancy group.

This was caused by a fall in the value of the US dollar (the currency in which the metal is priced) and rising aluminium prices. Many smelter power contracts have variable rates based on the metal's price.

Bird points out in its latest quarterly review of the industry that "the high-cost segment of the cost curve is now dominated by European smelters, not Americans as in the past."

However, cost pressures are predicted to ease soon as the price of alumina – the raw material for aluminium production – continues to fall. "But many smelters will remain uneconomic and will need to be replaced," Bird says.

The review suggests demand for primary aluminium will be "stagnant at best" in the short term. A period of very slow growth in demand, expected by Bird in 1991 and 1992, should be succeeded by a return to faster growth as soon as the world economy accelerates from 1992 onwards. (This supposes that the Gulf crisis will be resolved by mid-1991).

Bird says aluminium's competitive position is now "very good" as the present oil crisis has forced large increases in the cost of producing plastics. This will deter for some time customers who had thought of switching away from metals.

On prices, Bird suggests there will be a "dull patch" between now and late-1992 in response to a "comfortable" supply position. By 1993, supplies will tighten. Prices are forecast by Bird to average 78 US cents to 83 cents a lb in the longer term.

● The Porgera gold mine project in Papua New Guinea was officially opened on Saturday by Prime Minister Rabbie Namaliu, reports Reuters from Sydney.

The PNG government is expected to earn about 600m kina (£320m) from its 10 per cent stake plus taxation and royalties through the mine's 20-year life.

"Aluminium Analysis" quarterly. From Bird Associates, 193, Richmond Road, Kingston upon Thames, Surrey, KT2 5DD, UK. $430.00 yearly.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+7,075	to 168,075
Copper	−5,075	to 192,425
Lead	+375	to 45,700
Nickel	−660	to 4,398
Zinc	+1,103	to [illegible]
Tin	−10	to 11,365

A challenge to Common Market farming inertia

Bridget Bloom looks at proposals for mitigating the notorious shortcomings of the existing CAP

THE COMMON Agricultural Policy is no longer the right instrument for coping with the European Community's changing agricultural problems: that much is now widely accepted. But what should be put in its place?

Should the unpopular and costly policy simply be abolished, along with farm protectionism all over the world? Or is there some way of reforming it without sending Europe's 9m-10m farmers into deep trauma?

A stab at answering this question is made in a new report from the Brussels-based Centre for European Studies. Its broad conclusions are that efficient (generally larger) farmers must be brought into a much more market-oriented system, while problems of the greater number of marginal farms must be tackled through rural development strategies. To this end, the report advocates creating a new Rural Affairs Directorate in the European Commission.

The report thus does not advocate root-and-branch reform, but that is hardly surprising given its authorship. Mr Claude Villain is a former senior French official and former director general of DG VI, the EC commission's agriculture directorate, while the panel advising him included the great and the good of the official and commercial agricultural establishment, including Sir Michael Franklin, the former UK permanent secretary.

However, since these are men exceptionally well versed in the political as well as technical complexities of the CAP, their solutions merit attention.

As Mr Villain says in his foreword, the CEPS authors have sought "to avoid providing yet another assessment of the CAP." Their starting point is that the reforms of 1988, through the budget stabilisers, do not go far enough. They list a dozen problems needing more radical treatment, including:

● The CAP's evident inability to bridge the "poverty gap" between small and big farmers in its 30 year existence, as well as the widening gap between farmers in southern and northern member states.

● The "demographic factor": About 55 per cent of Europe's farmers are now over 55 years old; this, together with the worsening economic outlook, could reduce their numbers by over a third by the turn of the century. Yet the countryside remains very important: 50 per cent of the Community's people live there and they, like urban dwellers, are concerned both that the countryside should be cared for and that some of agriculture's harmful effects on the environment should be righted.

● At the same time, efficient farmers must remain competitive both in export markets and as suppliers to an increasingly demanding EC food processing industry. They must also cope with the "further rapid increases in productivity" in plant and animal production, which the "gene-splicing" techniques biotechnology will bring.

Mr Villain and his advisers nowhere consider abolishing farm protection: their programme would shift its emphasis, making it more flexible and, over time, more limited.

"If a viable agricultural sector is to be maintained in the Community, it must respond to market forces . . . this means that internally, agricultural price levels must reflect the production costs of only competitive farms."

This conclusion leads the group to propose a new system of external protection based on an import tariff which combines both a diminishing fixed element and a variable element to take account of currency fluctuations "or possible violent international market disruption."

Under this system, the much criticised trade-distorting export subsidies would gradually decrease, since internal farmer prices would be fixed in such a way that they would automatically lead to a reduction in the fixed element of the import tariff. As internal prices aligned themselves to world prices, farmers would be helped to become more competitive through "technological innovation and improved managerial skills."

Mr Villain acknowledges that such reforms of the CAP – which have something in common with EC proposals being discussed for the current Gatt world trade talks – would in his words "not alone be enough".

The EC has already introduced measures to ease the impact of the 1988 reforms of the CAP: these, says the report, "should be transformed from agricultural into rural ones and made production neutral."

Where farmers cannot be competitive under a more restrictive pricing policy because of the areas in which they farm or the conditions imposed on them, they should get direct aid. This could range from compensation for farming hill land, or payments for farming in an environmentally sensitive way.

Rural development plans, however, must cover far more than just agriculture; and they must be initiated at regional levels not by Brussels. But a new rural directorate should be created as the EC's "umbrella" organisation and would have the added advantage of providing the coherent framework now lacking for reconciling agricultural and environmental objectives in the countryside.

The Villain proposals contain little about timing and no real analysis of precisely how new aids can be guaranteed to be production-neutral. Neither, critically, do they cover costs: at present, more than 90 per cent of the EC's Ecu 26bn (£18bn) farm budget, itself some two-thirds of the total EC budget, goes on price support.

New Directions for European Agricultural Policy, by Richard Arnold and Claude Villain. Centre for European Policy Studies, Rue Ducale 33, B-1000 Brussels, Belgium.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,630-1,680 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.80-3.00 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 2.20-2.40 (2.30-2.50).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 13.00-13.50 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 175-200 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.69-2.75 (2.72-2.78).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.40.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 35-49 (36-49).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 2.50-2.60 (same).

URANIUM: Nuexco exchange value, $ per lb, UO, 11.45 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

Good buying interest lifted cocoa values at the London Futures and Options Exchange yesterday after Monday's failed rally attempt. But once again values were off their highs at the close, with the March position, which reached £719 a tonne at one time, ending just £8 up on the day at £711 a tonne. Coffee futures continued their recovery from Monday morning's 10-week lows and the January position closed £10 up at £580 a tonne. Dealers said the recent flurry of speculative selling appeared to be over and that the downward move had been overdone. Freight futures moved sharply lower at the Baltic Futures Exchange in a correction to the recent rise. The underlying Baltic Freight Index gained another 6 points to 1336 after rising 587 points on Monday, but second-position November futures lost 42 points at 1,333. "There was a feeling that the index has gone too high too quickly and that's why we had a correction fairly shortly after. . . the market was too overbought," one dealer said. At the LME aluminium prices were lifted by forward trade buying, despite news of another big rise in warehouse stocks. The cash position closed at $1,925.50 a tonne, up $45.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$25.20-5.30y	+2.1
Brent Blend (dated)	$29.05-9.15	+1.75
Brent Blend (December)	$28.50-8.60	+1.90
W.T.I. (1 pm est)	$29.80-9.85y	-.625

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$323-328	+5
Gas Oil	$270-272	+14½
Heavy Fuel Oil	$113-115	+3½
Naphtha	$280-285	+12

Petroleum Argus Estimates

Other		+ or -
Gold (per troy oz)♣	$372.00	+3.75
Silver (per troy oz)♣	426c	+5
Platinum (per troy oz)	$422.0	+7.0
Palladium (per troy oz)	$94.5	+1.5
Aluminium (free market)	$1915	+30
Copper (US Producer)	131c	
Lead (US Producer)	50c	
Nickel (free market)	420c	+12
Tin (Kuala Lumpur market)	16.41r	+0.13
Tin (New York)	289c	+2
Zinc (US Prime Western)	70c	
Cattle (live weight)†	99.16p	-0.30*
Sheep (dead weight)†	125.21p	-0.36*
Pigs (live weight)†	73.67p	-2.10*
London daily sugar (raw)	$264.0q	+3.0
London daily sugar (white)	$317.0q	-1.0
Tate and Lyle export price	£244.5	+2.0
Barley (English feed)	£115v	
Maize (US No. 3 yellow)	£157.25	+0.25
Wheat (US Dark Northern)	£91-	
Rubber (Nov)♥	51.00p	
Rubber (Dec)♥	50.75p	
Rubber (KL RSS No 1 Nov)	238.5m	
Coconut oil (Philippines)§	$280w	-10
Palm Oil (Malaysian)§	$285	
Copra (Philippines)§	$210t	+5
Soyabeans (US)	£141.5	
Cotton "A" index	82.40c	+0.65
Wooltops (64s Super)	408p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Nov/Dec. t-Jan. u-Oct/Dec v-Nov. w-Oct/Nov z-Jan/Mar y-Dec. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Dec	222.00	226.00	226.00 223.00
Mar	218.60	222.40	224.00 216.00
May	219.60	223.00	224.00 218.00
Aug	221.80	225.60	227.20 220.00
Oct	222.80	226.40	226.00 224.60
Dec	223.00	227.00	224.00
Mar	225.00	228.00	228.00
White	**Close**	**Previous**	**High/Low**
Dec	304.5	312.5	309.0 303.0
Mar	299.0	305.5	305.0 297.0
May	298.5	304.0	302.5 298.7
Aug	302.0	307.0	304.0 300.5
Oct	293.5	298.4	298.5 292.5
Mar	293.5		296.5

Turnover: Raw 2041 (1336) lots of 50 tonnes. White [illegible].
Paris- White (FFr per tonne): Dec 1547 Mar 1527, May 1535, Aug 1552, Oct 1514

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Dec	28.06	28.82	29.20 27.35
Jan	27.20	25.87	28.20 26.50
Feb	26.30	25.00	27.25 26.25
Mar	26.15	24.25	26.60 26.15
Apr	25.65		25.70 25.65
IPE Index	28.13	33.95	

Turnover: 19432 (22021)

GAS OIL – IPE $/tonne

	Latest	Previous	High/Low
Nov	258.00	243.75	263.00 246.00
Dec	260.25	237.25	256.00 240.00
Jan	242.00	229.00	247.00 234.00
Feb	232.00	219.00	234.00 227.00
Mar	221.25	205.00	221.25 215.00
Apr	208.25	192.00	210.00 208.25
May	203.00	190.00	203.00

Turnover 15842 (15740) lots of 100 tonnes

JUTE
November/December c and f Dundee BTC $520, BWC $540, BTD $475, BWD $490; c and f Antwerp BTC $505, BWC $505, BTD $455, BWD $455.

COTTON
Liverpool- Spot and shipment sales for the week ending 19 October reached 128 tonnes against 578 tonnes in the previous week.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	668	661	673 662
Mar	711	703	719 705
May	737	729	744 732
Jul	760	754	766 757
Sep	784	780	789 783
Dec	811	803	817 807
Mar	840	835	846

Turnover 3389 (4782) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 22 683.61 (680.29) 10 day average for Oct [illegible]

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
Nov	[illegible]	557	566 550
Jan	580	570	[illegible] 575
Mar	572	565	576 566
May	581	575	582 579
Jul	594	588	597 585
Sep	610	607	613 611
Nov	[illegible]	624	627

Turnover: 5606 (9046) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Oct 22: Comp. daily 73.19 (72.94). 15 day average 74.39 (74.41)

POTATOES – IPE £/tonne

	Close	Previous	High/Low
Nov	74.0	70.0	75.0
Apr	141.4	135.0	142.0 135.5
May	160.5	154.0	160.0 158.0

Turnover 303 (305) lots of 40 tonnes.

SOYABEAN MEAL – IPE £/tonne

	Close	Previous	High/Low
Feb	124.50	124.50	124.50
Apr	125.50	127.00	125.50

Turnover 130 (111) lots of 20 tonnes.

FREIGHT FUTURES – IPE $10/index point

	Close	Previous	High/Low
Oct	1336	1345	1335 1320
Nov	1333	1375	[illegible] 1325
Jan	1290	1315	1326 1275
Apr	1270	1303	1270
Jul	1075		1090
Oct	1180		1190 1180
BFI	1336	1330	

Turnover 596 (354)

GRAINS – IPE £/tonne

Wheat	Close	Previous	High/Low
Nov	114.75	114.80	114.90 114.50
Jan	119.20	119.00	119.30 119.00
Mar	122.75	122.55	122.85 122.50
May	126.20	126.00	126.20 126.00
Sep	110.45		110.45
Barley	**Close**	**Previous**	**High/Low**
Nov	113.05	113.10	113.10 112.90
Jan	117.55	117.50	118.00 117.40
Mar	120.70	120.85	120.70

Turnover: Wheat 324 (244), Barley 145 (98). Turnover lots of 100 tonnes.

PIGS – IPE (Cash Settlement) p/kg

	Close	Previous	High/Low
Oct	100.0	100.5	99.5
Nov	100.0	100.5	100.5

Turnover 60 (18) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 20,805 lots
Cash	1923-8	1878-83	1915	1912-5		
3 months	1788-90	1768-70	1800/1780	1782-5	1795-7	76,478 lots
Copper, Grade A (£ per tonne)						Total daily turnover 15,334 lots
Cash	1385-9	1365-8	1400/1377	1391.5-2.5		
3 months	1374-5	1354-5	1388/1362	1367-8	1387-8	110,152 lots
Lead (£ per tonne)						Total daily turnover 1,301 lots
Cash	379-81	374.5-6.5	378	377-8		
3 months	384-5	379.5-8	384/380	380-1	383-4	10,701 lots
Nickel ($ per tonne)						Total daily turnover 2,032 lots
Cash	9000-100	8900-50	9025	9025-50		
3 months	8850-75	8650-75	8775/8600	8700-50	8800-50	7,532 lots
Tin ($ per tonne)						Total daily turnover 1,224 lots
Cash	6280-90	6200-20	6215/6210	6210-2		
3 months	6260-90	6220-30	6265/6225	6220-5	6260-80	8,725 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 3,852 lots
Cash	1335-40	1345-50	1336/1335	1337-8		
3 months	1335-8	1343-5	1342/1330	1334-8	1340-2	19,504 lots

LME Closing £/$ rate: SPOT: 1.9440 3 months: 1.9175 6 months: 1.8968 9 months: [illegible]

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	371¼-372¼	191-191½
Opening	370¼-370¾	190¼-190¾
Morning fix	370.75	190.735
Afternoon fix	371.65	190.639
Day's high	373-373½	
Day's low	369¾-370¼	

Coins	$ price	£ equivalent
Maple leaf	381-386	196-199
Britannia	381-386	196-199
US Eagle	381-386	196-199
Angel	381-386	196-199
Krugerrand	371-374	190½-192½
New Sov.	88-90	45-46
Old Sov.	88-90	45-46
Noble Plat	427.00-432.85	219.00-222.50

Silver fix	p/fine oz	US cts equiv
Spot	217.30	423.00
3 months	224.60	431.60
6 months	231.90	440.00
12 months	245.80	457.30

TRADED OPTIONS

Coffee	Jan	Mar	Jan	Mar
550	44	50	14	28
600	18	29	36	57
650	7		77	
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
600	72	124	4	13
650	35	88	17	28
700	14	60	46	48
Brent Crude	**Dec**	**Jan**	**Dec**	**Jan**
3000		240		245
3050				400
3100		220		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	371.2	369.8	371.0	371.0
Nov	371.7	370.2	0	0
Dec	373.0	372.4	376.3	372.4
Feb	376.0	375.3	379.2	376.5
Apr	381.7	380.2	382.3	380.5
Jun	385.7	384.1	385.8	384.5
Aug	390.5	388.0	391.0	391.0
Oct	393.6	392.0	0	0
Dec	397.7	396.1	398.5	397.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	422.4	412.3	421.0	419.0
Jan	427.9	418.3	430.0	421.5
Apr	433.4	423.4	433.0	427.5
Jul	438.4	428.5	435.0	435.0
Oct	443.9	434.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	421.9	419.4	423.5	423.5
Nov	422.7	420.2	0	0
Dec	425.8	423.3	[illegible]	424.0
Jan	427.8	425.3	430.0	430.0
Mar	435.1	432.6	437.5	433.2
May	441.3	438.8	444.0	439.5
Jul	447.4	445.0	449.0	449.0
Sep	453.3	451.1	0	0
Dec	462.4	460.0	463.0	462.0
Jan	[illegible]	462.8	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	132.20	127.00	132.20	128.50
Nov	128.15	123.50	127.50	124.00
Dec	122.65	117.30	122.60	117.60
Jan	119.85	115.00	116.50	115.50
Mar	115.05	110.70	115.85	111.30
Apr	113.60	109.55	0	0
May	112.85	108.40	111.50	108.50
Jun	111.55	107.60	0	0
Jul	110.35	106.70	108.50	108.50
Aug	109.50	105.85	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Dec	29.65	30.41	30.25	28.30
Jan	28.50	28.95	29.20	27.40
Feb	27.60	27.57	28.10	26.75
Apr	25.65	25.41	26.35	25.50
May	[illegible]	24.43	26.00	24.75
Jun	24.44	23.78	25.20	24.00
Jul	24.00	23.23	24.35	23.95
Aug	[illegible]	22.78	[illegible]	23.60
Sep	23.40	22.46	[illegible]	23.25

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Nov	8120	7596	8160	7700
Dec	8190	[illegible]	8230	[illegible]
Feb	7860	8059	7960	7600
Apr	7100	7109	7300	[illegible]

COCOA 10 tonnes; $/tonnes

	Close	Previous	High/Low	
Dec	1185	1184	1204	1175
Mar	1245	1242	1262	1239
May	1282	1280	1293	1277
Jul	1315	1318	1329	1320
Sep	1345	1348	0	0
Dec	1385	1388	0	0
Mar	1420	1423	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	91.80	93.00	93.60	91.50
Mar	95.40	96.35	96.95	95.00
May	97.50	98.75	99.00	97.25
Jul	99.70	100.50	100.50	[illegible]
Sep	101.95	102.75	102.30	101.70
Dec	104.25	105.40	104.00	104.00
Mar	105.25	105.50	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	9.67	9.82	9.91	9.62
May	9.77	9.91	9.81	9.67
Jul	[illegible]	[illegible]	9.83	9.73
Oct	9.87	9.97	9.98	9.78
Mar	9.98	10.10	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	74.66	74.62	74.85	74.27
Mar	74.94	74.53	75.00	74.45
May	75.20	74.80	75.25	74.60
Jul	75.25	74.90	75.25	[illegible]
Oct	67.85	68.15	68.20	68.00
Dec	66.56	66.65	66.80	66.50
Mar	67.50	67.80	67.40	67.40

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	114.90	112.25	116.25	114.25
Jan	109.80	109.45	110.40	108.60
Mar	110.50	109.70	110.75	109.90
May	110.50	110.35	111.00	110.00
Jul	110.50	110.35	112.50	111.50

INDICES

REUTERS (Base: September 18 1931 = 100)

Oct 23	Oct 22	mnth ago	yr ago
1734.0	1724.7	1773.9	1845.8

DOW JONES (Base: Dec. 31 1974 = 100)

	Oct 22	Oct 19	mnth ago	yr ago
Spot	128.61	128.15	131.54	131.64
Futures	128.06	127.59	129.95	129.40

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	614/4	610/6	615/0	605/0
Jan	629/2	625/4	630/0	620/2
Mar	643/6	639/4	644/4	634/0
May	656/4	650/4	656/0	647/0
Jul	665/0	660/4	667/4	657/2
Aug	665/0	657/0	666/0	656/4
Sep	635/2	632/0	638/0	634/4
Nov	626/4	623/4	628/0	622/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Oct	21.97	21.68	21.97	21.75
Dec	22.33	22.07	22.34	21.87
Jan	22.66	22.36	[illegible]	22.36
Mar	23.11	22.85	23.12	22.75
May	23.46	23.19	23.46	23.05
Jul	23.66	23.39	23.65	23.25
Aug	23.55	23.40	23.55	23.30
Sep	23.46	23.32	23.45	23.15
Oct	23.25	23.02	23.25	22.90

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Oct	188.7	181.1	0	0
Dec	185.4	185.3	186.8	182.3
Jan	187.6	187.8	187.7	[illegible]
Mar	191.4	190.8	191.5	188.8
May	192.9	[illegible]	193.0	190.3
Jul	[illegible]	193.3	194.0	191.8
Aug	193.2	193.2	193.5	192.3
Sep	[illegible]	189.0	189.8	[illegible]
Oct	186.0	186.0	0	0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	231/6	230/2	231/6	229/2
Mar	241/0	239/6	241/0	238/6
May	246/6	245/6	247/0	244/4
Jul	250/6	249/6	251/0	248/6
Sep	248/6	248/0	249/0	247/6
Dec	250/2	249/0	250/4	248/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	263/4	263/2	265/6	261/2
Mar	278/0	277/4	278/4	276/0
May	285/0	285/0	285/4	283/0
Jul	288/2	289/4	289/6	287/4
Sep	293/0	294/0	294/0	292/4
Dec	305/0	304/4	305/0	304/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	77.32	76.75	77.35	76.40
Feb	74.37	73.97	74.47	73.35
Apr	74.90	74.80	75.12	74.45
Jun	72.55	72.52	72.75	72.25
Aug	70.80	70.90	71.20	70.70
Oct	71.20	71.25	71.50	71.10

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	54.20	53.75	54.70	53.85
Feb	50.85	50.75	51.57	50.75
Apr	47.57	47.47	48.15	47.50
Jun	51.20	51.07	51.70	51.10
Jul	51.55	51.35	51.85	51.45
Aug	50.17	49.95	50.17	49.95
Oct	46.45	46.40	46.45	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	66.85	65.75	67.50	65.45
Mar	66.80	65.57	67.25	65.35
May	66.90	65.82	67.45	65.60
Jul	65.70	64.85	66.60	64.80
Aug	63.20	62.30	63.90	[illegible]

LONDON STOCK EXCHANGE

Gains extended in difficult trading

ATTEMPTED buying by investment institutions brought a further advance in the UK stock market yesterday. Buyers were, however, often frustrated by difficulties in finding stock in sufficient size while, on the other side of the market scales, several large deals failed to find the necessary support.

Dealers commented with some exasperation on a market which, having been largely unresponsive to Monday's list of good news, moved ahead yesterday despite renewed gains in crude oil prices and less convincing performances from the New York and Tokyo equity sectors. "Why today and not yesterday?" asked a senior dealer in the blue chip stocks at Salomon International.

Account Dealing Dates		
First Dealings: Oct 8	Oct 22	Nov 5
Option Declarations: Oct 18	Nov 1	Nov 15
Last Dealings: Oct 19	Nov 2	Nov 16
Account Day: Oct 29	Nov 12	Nov 26

*New-time dealings may take place from 8.30 am two business days earlier.

One reason for a strong London opening was the buying back of a number of overnight tax loss stocks on the FT-SE list sold at the close of the previous session. One deal was in British Airways which was also benefiting from the downturn this week in crude oil prices.

Monday's news of a marked improvement in the UK trade deficit in September encouraged some European funds to take a more favourable view of the electoral prospects of the Conservative Government, and to buy a wide range of leading stocks, including Glaxo and BAT Industries, although the latter could face pressure this morning after the unexpected departure of leading executives from the group's Allied Dunbar financial services arm.

The initial advance petered out when the FT-SE showed a gain of 32 points and, with Wall Street down 7 Dow points in its new session during London hours, the UK market proved unable to recapture its early enthusiasm.

The final reading put the FT-SE Index at 2,127 exactly, a net gain of 25 points on the day. Seaq volume was an unexciting 376m shares compared with 336.4m in the previous session, but traders pointed to a number of deals which failed to come to fruition.

Failure by a broking house to place a substantial line of stock in Cable & Wireless coincided with demand for Racal Electronics and revived suggestions last heard a month ago that Cable might be interested in bidding for Racal. There was also an attempt, apparently unsuccessful, by two London-based securities houses to place a fifth of the equity of NSM, the coal processor.

This underlying activity, together with a modest two-way trading programme from another securities house, kept the market busy, if somewhat frustrated. Traders said that the market's volatility over the past three weeks has provided further discouragement for position-taking by the marketmakers. Consequently, institutions found it difficult yesterday to deal in share blocks outside Seaq-quoted sizes.

FINANCIAL TIMES STOCK INDICES

	Oct 23	Oct 22	Oct 19	Oct 18	Oct 17	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	79.87	79.76	79.10	79.43	79.78	84.86	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	88.86	88.80	88.87	88.87	88.90	94.05	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1654.7	1633.6	1621.5	1618.1	1600.8	1739.5	1968.3 (3/1)	1510.4 (24/9)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	169.0	168.4	169.7	168.8	163.9	195.1	378.5 (6/2)	163.2 (15/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2127.0	2102.0	2088.0	2082.6	2088.0	2149.3	2463.7 (3/1)	1990.2 (28/9)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.79	5.87	5.90	5.92	5.99	4.75				
Earning Yld %(full)	12.07	12.22	12.32	12.35	12.50	11.42				
P/E Ratio(Net)(☆)	10.04	9.91	9.83	9.81	9.70	10.58				
SEAQ Bargns 4.45pm	19,004	16,967	20,827	17,459	18,005	23,239				
Equity Turnover(£m)†	-	561.35	795.79	703.34	724.37	631.05				
Equity Bargains†	-	16,241	19,563	18,904	17,338	20,098				
Shares Traded (ml)†	-	319.8	482.4	385.7	384.8	298.6				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. ☆ Nil 9.88

Ordinary Share Index, Hourly changes — Day's High 1661.8 — Day's Low 1648.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1649.7	1651.1	1654.6	1656.3	1657.5	1658.2	1655.9	1653.9	1652.8

FT-SE, Hourly changes — Day's High 2134.3 — Day's Low 2120.7

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2121.6	2133.5	2134.7	2125.7	2127.1	2128.8	2128.8	2124.7	2125.7

GILT EDGED ACTIVITY

Indices*	Oct 22	Oct 19
Gilt Edged Bargains	97.6	102.9
5-Day average	101.9	102.8

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

Heavy activity in C & W

THERE WAS lively activity in Cable and Wireless as the market speculated that a leading broker had failed to place a block of between 1.5m and 2m shares. According to market traders, the broker made two attempts to place the Cable stake. First, the shares were offered at 430p and then, when this failed, offered again at a lower price — but still failed to find a home. By the close the Cable price had dipped 10 to 420p on a hefty 4.4m turnover.

The market's interest was fuelled further by renewed reports suggesting that Cable might bid for Racal Electronics, which jumped 10½ to 162½p with 7.7m shares traded, and some specialists believing that a stake was being built up. Strategists said Racal had benefited from US support and that Goldman Sachs had been heavily involved. Goldman said that it "always had an interest". Racal Telecom also strengthened, gaining 10 to 269p on a turnover of 1.1m.

BOC erratic

BOC, the chemicals multinational, relinquished an early good gain after analysts at BZW changed their recommendation from hold to sell. The broker said the shares were at the top of the established trading range of their price-earnings relative.

"There is not much scope for further outperformance," said Mr Martin Evans of BZW. The shares have already outperformed the rest of the market by 6 per cent in the last month. Yesterday they peaked at 513p, fell to 499p and ended unchanged on the day at 501p. Full year figures are due on November 12. The early gain had been the result of a shortage of stock and the better than expected third-quarter figures late on Monday from Union Carbide of the US.

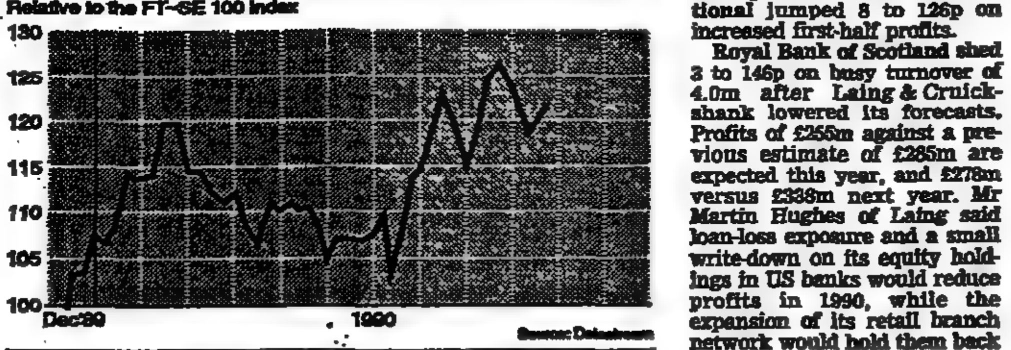
Cookson revival

Further consideration by City analysts of Cookson's decison to sell its half-share in Tioxide to ICI brought a generally favourable judgement. The proceeds of the deal were disappointing, said analysts, but the sale would ease the strain on Cookson's weak balance sheet. Some investment houses removed the shares from their sell lists but only one, County NatWest, was believed to have changed its recommendation to a buy.

The advice, however, was sufficient to generate support for the shares, which closed up 6 at 74p. County said it was a case of a forced seller persuading a reluctant buyer. The result is that Cookson gearing and interest numbers change markedly, and cash flow will be positive both this year and next. It may need to sell more assets, but the initial urgency is reduced.

Water Holding Units

Relative to the FT-SE 100 index



The Water Package has risen in recent days, helped largely by the prospect of high dividend returns in the water sector overall. The stronger tone reflects a reversal of earlier market fears of a return to public ownership under a Labour government.

Wolseley impresses

For a sector which has experienced many corporate setbacks this year, the news from building materials group Wolseley was a relief. Annual profits of £120.7m easily exceeded analysts' estimates and were also slightly above the £120.2m reported last year. The market had feared a profits shortfall, with one investment house forecasting profits as low as £111m. The shares responded with a rise of 6 to 286p.

Wolseley admitted that the current year was bound to be more difficult, but it remains confident about the quality of its business and longer term prospects. One researcher thought the year's result "a superlative performance; "this looks to be one building stock we will not downgrade for 1991."

The market's positive mood was felt keenly by international stocks. Leading the way higher were Glaxo, up 22 to 792p, BAT Industries, 17 better at 576p, and Wellcome, 15 dearer at 508p. One exception was Fisons, 3 off at 370p. Traders said there was a chart resistance point at that level.

Oils continued to ignore the gyrations in the crude price and advanced with the rest of the market. Shell, up another 6 at 459p, Lasmo, 7 better at 432p, and British Gas, 5 to the good at 219p, were the best performers.

Courtaulds Textiles swung higher on news of the joint venture with General Motors, the purpose of which is to develop new fabric manufacturing processes for automotive interiors. Pooling the fabric knowledge of Courtaulds with the requirements of a major car manufacturer has tremendous potential, said a leading researcher, as CT shares rose 10 to 245p.

Lucas Industries also bounded forward on realisation that the market had taken a too bearish view ahead of the group's annual results. These were reported on Monday and fetched the description of "a commendable performance". BZW said yesterday that Lucas was still on course and recommended that clients be long-term overweight in the stock. It regained 9 more to 126p.

T & N, another automotive components group, benefited from the more positive sentiment, rising 8 to 147p.

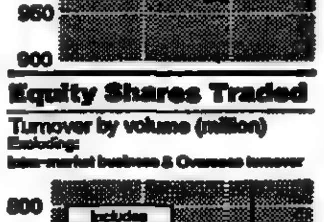
Smiths Industries moved 4 higher to 202p awaiting today's preliminary statement, but BET dipped 6 to 215p on net debt worries and thoughts that rising finance charges would bite into the interim figures, due on November 12. Johnson Matthey, the precious metals refiner, recovered 8 to 204p behind the rally in the platinum price. Boxmore International jumped 8 to 126p on increased first-half profits.

Royal Bank of Scotland shed 3 to 146p on busy turnover of 4.0m after Laing & Cruickshank lowered its forecasts. Profits of £255m against a previous estimate of £285m are expected this year, and £278m versus £338m next year. Mr Martin Hughes of Laing said loan-loss exposure and a small write-down on its equity holdings in US banks would reduce profits in 1990, while the expansion of its retail branch network would hold them back in 1991.

Lloyd Thompson rose 4 to 280p after Barclays de Zoete Wedd changed its recommendation from hold to buy. BZW said insurance premium rates would be forced higher next year, and as Lloyd's business was almost entirely in the London insurance market it stood to benefit.

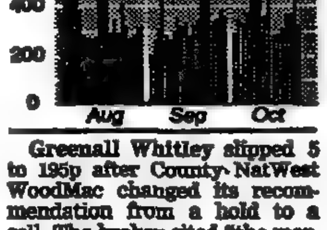
Brewers and distillers shares had a good day, albeit in thin volume. US buying helped Bass to rise 14 to 1056p. Grand Metropolitan climbed 12 to 593p in spite of one or two trimmings of brokers' forecasts for current year profits.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



Greenall Whitley slipped 5 to 195p after County NatWest WoodMac changed its recommendation from a hold to a sell. The broker cited "the market's euphoric reaction to the group's decision to pull out of brewing [which had] pushed the stock to its five-year price relative high".

NSM, the coal mining and processing concern, was down only one penny at 74p in spite of rumours that Anglo United, whose principal activities are open-cast coal extraction in the UK and the US, was trying to place its 20.6 per cent NSM holding through two brokers at 69p. In March last year Anglo had declared its intention to dispose of its stake.

The squeeze suffered by the engineering industry was highlighted by disappointing results from McKechnie and FR Group and underpinned by profit estimate downgradings by analysts.

Annual profits for McKechnie fell to £28.09m from £39.14m and the shares slipped 2 to 190p.

Hoare Govett said it had been looking for around £30m next year but had revised its estimate to £28m. Smith New Court cut its figure for the year to July 1991 from £33.5m to £27m.

The defence element of FR Group, the flight refuelling systems group, was not seen as sufficiently positive to offset a half-year profit fall to £10.8m from £11.9m and the shares shed 5 to 122p. Hoare Govett reduced its end of year forecast from £24m to £21m.

Smith New Court lowered its 1990 forecast from £25m to £21.5m and the 1991 estimate from £28m to £24m.

The high yield of British Steel continued to attract buyers and the stock saw brisk business and a rise of 3 to 124p. Broker County NatWest carried out a large chunk of the 8.7m turnover, including a 1.1m trade in early business.

Unsubstantiated bid rumours helped Davy Corporation, which was rapidly approaching its 1990 low of 92p, to bounce back 10 to 104p. Analysts said institutions had decided the stock had bottomed out and moved in to buy about 2.5m shares.

The dramatic slide of Siebe, which has fallen from 530p just before its purchase of Foxboro, the US automation and control equipment maker, continued. It dropped 10 to 247p on heavy selling and a turnover of 980,000.

Pressac picked up 9 to close at 85p after announcing a rise in pre-tax profits.

Tate & Lyle rose 7 to 254p after Hoare Govett visited Staley, its US corn syrup operation which it acquired in 1988. Hoare came away reassured that, contrary to market worries, Staley would be able to control costs. Staley's operating profits would rise to $170m this year from $149m last year, Hoare predicted.

Shandwick, which controls the world's largest public relations company, climbed 8 to 120p after it revealed a 41 per cent rise in full year profits.

Bryant Group, the property investment and construction concern, announced a one-for-four rights issue of 51.46m ordinary shares at 77p each to raise £39.6m before expenses. In the short term the proceeds will be used to reduce the group's bank borrowings. The company also wants to increase its land holdings. The directors' confidence was underlined by a forecast that the dividend for the year ending 31st May 1991 would be maintained at 4.8p.

The issue was generally well received by the market and the shares finished just 1¼ lower at 92½p. However, one analyst described the offer as extraordinary, suggesting that with the company's relatively low gearing of around 15 per cent there seemed little reason to go to shareholders for more money.

Water shares were firmer on hopes that a strong sector performance would result in higher dividend payments. Some analysts were cautious, however, warning against an over-reaction. There was also concern about the possibility of funds being drawn away ahead of the privatisation of the electricity industry.

The Water Package rose £27 to £2,295, having touched £2,308, while Anglian ended 6 higher at 234p.

■ Other Market statistics, including the FT-Actuaries share index, Page 22

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (77).
BRITISH FUNDS (3) Fd. 5¼pc 1987-91, Fd. 6pc 1993, Treas. 9pc 1991, BREWERS (1) Bulmer (H.P.), STORES (1) S & U Stores, ELECTRICALS (1) Sorland Intl., ENGINEERING (1) TACE, FOODS (1) Farepak, PROPERTY (1) Dukeminster, TRUSTS (2) Gen. Cons. I.T. Sispd. Prf.
NEW LOWS (38).
BANKS (2) Chancery, Rea Bros. Grp., BUILDINGS (2) Sheriff Hldgs., Wescol Grp., CHEMICALS (2) Caird Grp., Do. 7p Cv. Pf., STORES (2) PML, Wyevale Garden Centres, ELECTRICALS (5) Acorn Computer, Denistron Intl., Millicom Inc., Nokia Corp. Prf., P & P, ENGINEERING (5) Hobson, Locker (T.), Meggitt, Telfos, Triplex Lloyd, FOODS (2) Nichols (Vimto), Shoprite, Usborne, INDUSTRIALS (11) AAF Inds., BBA, Business Tech. Grp., Celestion, Green (E.) & Part., Halls Homes & Gardens, Johnston Grp., PFG Hodgson Kenyon, Reliant grp., Shaw (Arthur), Siebe, LEISURE (1) Fairline Boats, MOTORS (1) Pendon Grp., NEWSPAPERS (1) Summer Intl. 7.5pc Cv. Pf., PAPERS (1) Buhrmann-Tetterode, PROPERTY (1) Mowat Grp., SOUTH AFRICANS (1) OK Bazaars, TEXTILES (2) Foster (J.), Ingham (G.), TRANSPORT (1) Clarkson (Horace), TRUSTS (3) Br. Asset 6pc Cnv. 1995, Burns-Anderson, Centreway Tst., Murray Ent. Zero Ln. 1994, SPRAIT, OILS (4) Atlantic Res., Ex. Co. Louisiana, Triton Europe, OVERSEAS TRADERS (1) Chillington, MINES (3) Ang. Am. Gold, Anglo Pacific Res., Beatrix Mines, Indonesian Diamond, Stockbridge, Wickelbank, THIRD MARKET (2) Keith Minerals, Moray Firth.

APPOINTMENTS

Management moves at T&N group

■ *T&N has made the following* changes. At BIP Chemicals, Birmingham, Mr Brian Ward has been appointed human resources director, and Dr Peter Crook becomes technical director. At Coopers Payen, Slough, Mr Kevin Thomas is made director of human resources; and at Curty, in Lyon, France, Mr Chris Note becomes president and directeur general. Mr Note was managing director of sister company Textilver. Dr Ranjit Sinha has been appointed operations director of TBA Industrial Products, Rochdale, and from January 1 Ms Fiona Forrester becomes human resources director. Mr Peter Parkin and Mr John Sumner join the board of Tennant in Manchester, Mr Parkin as director and business manager, and Mr Sumner as manufacturing director.

■ Mr William Foxlee has been appointed general manager Europe of COMMONWEALTH BANK OF AUSTRALIA in London. He succeeds Mr Ray Petersen, who is returning to Australia as head of corporate banking, head office, Sydney.

■ SWISS BANK CORPORATION has appointed Mr Michael A. Bradley as a director and head of debt syndicate at its London office, from November 5. He was managing director, syndication and sales, Chase Investment Bank. Mr Richard Johnson joins from Nomura International as a syndicate new issue trader.

■ HAAGEN-DAZS, the US-based ice cream manufacturer, part of GrandMet, has appointed Mr Justin King as managing director of Häagen-Dazs UK. He replaces Mr Tim Meadows-Smith who assumes responsibility for operations in Benelux and Scandinavia. Mr King was previously with Pepsi-Cola International as marketing director (Egypt) and business development manager (Middle East).

■ At FIRST INTERNATIONAL GROUP Mrs Cathy Pierce has been appointed a director of First International Capital, London.

■ Mr Lindsay Mackinlay, a former main board director of Rowntree, has joined the board of BRADFORD & BINGLEY BUILDING SOCIETY.

■ Mr Ted MacDonald has been appointed managing partner, UK European property finance at ROYAL TRUST BANK. He was formerly managing partner of the real estate group with Royal Trust in Toronto. He joins the bank's senior management team in London and is responsible for the property finance division of the bank and the property lending activity of Royal Trust's European units.

■ Mr Simon Hollis has joined YAMAICHI INTERNATIONAL (EUROPE) as executive director heading the UK and Ireland corporate finance group. He was previously a director of UK corporate banking and merchant banking at Swiss Bank Corporation.

■ Mr Stephen Butt has been promoted to managing director of the WATTS & CORRY GROUP. He was commercial director. Mr Eric Walker becomes deputy managing director, retaining responsibility for production.

■ Mr Umesh Bewtra *(pictured)* has been promoted to managing director of THIRD WAVE SYSTEMS. He was technical director.

Changes at Scania (GB)

■ Mr Dieter Merz, managing director of Renault Truck Industries, the loss-making UK subsidiary of Renault Véhicules Industriels, the French commercial vehicles maker, is to become managing director of SCANIA (GREAT BRITAIN), the UK subsidiary of Saab-Scania, the Swedish truck maker, *writes Kevin Done.*

Mr Merz's move to one of Renault's rivals in the UK follows the appointment of Mr Anders Aström, currently managing director of Scania (Great Britain), to the post of Scania vice president with responsibility for the European and North American markets.

Mr Merz was previously managing director of Saab France from 1982 to 1988.

He returned briefly to Sweden as marketing director of the Saab car division, before joining Renault Truck Industries in June 1989.

His successor as RTI managing director with effect from December 1 will be Mr Bernard Monin, at present managing director of RVI Belgium, the French group's Belgian truck and bus importer and distributor.

■ FERRARI HOLDINGS has appointed Mr William McLaughlin as director of finance. He was finance director at Plessey Engineering and Components.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

BRITISH FUNDS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

Continued on next page

LONDON SHARE SERVICE

BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
£13¼	£9	ABN Amro Fl5	£9¾	-¼	Q28%	2.1	9.0	5.2
303	161	ANZ $A1	167	+2	44c	1.4	10.7	6.6
233	172	Abbey National 10p	214	+2	5.7	4.3	3.6	8.7
*274	128	Allied Irish Ord	168	+6	Q40%	3.3	5.6	7.2
85	47	Anglo Irish	53	+1	Q18.7%	2.7	7.9	7.6
93	61	Ansbacher (H.) 1p	66	.....	2.5	1.3	5.1	19.0
£71½	£32	Bancaire Cie Fr100	£44½	+½	Q12½%	–	2.9	–
£22½	£13½	Banco Bilbao Viz	£14½	-⅜	Q49.1%	2.7	5.6	9.8
286	136	Bank Ireland IR£1	150	+2	Q14.7%	2.9	8.4	5.5
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
351	320	Bank Leumi (U.K.)	350	.....	†15.0	–	5.7	–
129½	100	Bank Scotland	107	.....	†4.55	3.4	5.7	6.8
100½	83½	Do. 9¼pc Irrd Pf	93½	.....	9¼%	–	13.2	–
54	39	Bank of Wales	42	.....	2.8	0.8	8.9	20.2
428	290	Barclays £1	372	+10	†19.57	3.5	7.0	5.2
22	11	Benchmark 20p	11	-1	0.75	–	9.1	–
335	238	Brown Shipley £1	240	.....	12.0	2.2	6.7	7.8
*435	285	Cater Allen £1	335	+5	24.5	–	9.8	–
179	44	Chancery	44	-5	9.0	2.7	27.3	1.8
£23½	£15½	Commerzbk DM10	£15⅝	+⅞	Q18%	–	4.0	–
£13¼	620	Dai Ichi KBk Y50	750	+17	Q17%	6.2	0.5	35.4
£313	£194½	Deutsche Bk DM50	£216¼	+2½	Q28%	–	2.2	–
£20⅞	£14½	Espirito Santo	£15⅛	+⅛	Q75c	5.1	2.5	7.8
253	166	First Nat. Fin. 10p	173	-3	13.0	2.1	10.0	5.9
121	82	FNFC 6.3pc Cv. Pf	88	.....	6.3%	–	9.5	–
£13¼	633	Fuji Bank Y50	890	.....	Q17%	◆	0.4	◆
325	262	Gerrard & National	276	+1	19.0	–	9.2	–
154	93	Guinness Mahon 10p	93	.....	2.1	–	3.0	–
328	194	Hambros 20p	215	+3	11.5	–	7.1	–
128	88	Do. 7.5pc Cv Pf	95	+1	7½%	–	10.5	–
53½	31½	HK & Shang. HK$2.50	32½	+½	HK38c	–	7.8	–
478	378	Joseph (Leo) £1	378	.....	15.85	–	5.6	–
150	105	King & Shaxson 20p	116	+1	10.25	–	11.8	–
[illegible]								

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

MOTORS, AIRCRAFT TRADES — Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST—Contd

[illegible]

INVESTMENT TRUST—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names. α Alpha, β Beta, γ Gamma

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ◆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- ◆ Not comparable
- ◆ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ¤ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 ♥	700	......
Finlay Pkg. 5p ♥	38	–2
Holt (Jos) 25p ♥	1385	......

IRISH

Cap. 8½% Ln. 1991	£98½	......
9pc Cap Ln. 1996	£93¼	–¼
Fin. 13% 97/02	£110¾	......
Arnotts	180	+10
Carrol (P J.)	152	......
Hall (R. & H.)	165	......
Helton Hldgs. ♥	52	......
IRG	153½	......
United Drug	140	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	6
Astec (BSR)	4½
BAT	45
BOC Grp	39
BTR	29
Barclays	27
Blue Circle	17
Boots	21
Bowaters	41
Brit Aerospace	43
British Steel	13
Brit. Telecom	22
Cadburys	26
Charter Cons	37
Comm Union	37
Courtaulds	25
Eurotunnel	40
FKI	5½
FNFC	20
Gen Accident	37
GEC	14
Glaxo	57
Grand Met	44
Guardian	15
GKN	27
Hanson	16
Hawker Sidd	39
ICI	78
Ladbroke	22
Legal & Gen	29½
Lex Service	28
Lloyds Bank	21
Lucas Inds	11
Marks & Spencer	18
Midland Bk	28
Nat West Bk	18
P & O Dfd	42
Polly Peck	40
Racal Elect	14
RHM	23
Rank Org Ord	49
Reed Intnl	30
STC	19½
Sears	8½
SmKl. Beecham A	44
TI	37
TSB	10
Tesco	19
Thorn EMI	49
Trust Houses	21
T&N	14
Unilever	50
Vickers	19
Wellcome	38

Property

Brit Land	24
Control Secs	3½
Land Securities	42
MEPC	38
Mountleigh	11

Oils

Aviva Petlm	3½
Brit Petroleum	28
Burmah Castrol	44
Conroy Petlm	20
Gaelic Res	2
Premier	8½
Shell	40
Tuskar Res	6
Ultramar	31

Mines

Lonrho	21
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

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AUTHORISED UNIT TRUSTS

Newton Fund Mngrs Ltd (1200)F
2, London Bridge, SE1 071-407 4404

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible] The symbols are as follows: (▼) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (♣) - 1701 to midnight. [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

[illegible] Life Assurance and Unit Trust Regulatory Organisation, Centre Point, [illegible] New Oxford Street, London WC1A 1QH Tel: 071 - [illegible]

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Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 0296 392156

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
American Eagle	5	57.49	57.49	61.31	+0.36	1.26
Australia	5	5.906	5.906	5.994	[illegible]	4.52
Equity	5	141.1	141.1	151.6	+1.3	5.07
Euro Spec Sits	5	99.42	99.42	106.8	+1.6	0.45
Financial	5	24.71	24.71xd	26.78	+0.23	5.24
Global Opps Inc	5	58.12	58.12xd	62.56	+0.53	0.00
Global Opps Acc	5	58.56	58.56	63.05	+0.53	0.00
Gold & Gen Inc	5	35.69	35.69xd	38.37	+0.32	1.06
Gold & Gen Acc	5	66.52	66.52	71.52	+0.60	1.04
Income	5	87.74	87.74xd	94.59	+0.85	6.57
Japan & General	5	119.4	119.4	128.4	-2.4	0.00
Preference Share	5	17.47	17.39xd	19.09	+0.40	11.99
UK Capital	5	77.94	77.94	83.69	+0.85	4.17
World Income	5	53.83	53.83xd	57.31	+0.58	6.32
Worldwide Capital	5	148.4	148.4	159.7	+1.1	3.42

Templeton Unit Trust Managers Ltd (1200)F
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932

Global Growth Acc	6	91.46	92.66	99.10	+1.23	3.70
Global Growth Inc	6	88.35	89.03	95.22	+1.18	3.70
Global Balanced Acc	6	92.30	92.77	99.22	+0.97	4.88
Global Balanced Inc	6	85.99	86.43	92.44	+0.91	4.88
Value Tst Acc	6½	68.93	69.91	74.77	+0.91	4.58
Value Tst Inc	6½	67.21	68.17	72.91	+0.9	4.58
Intl Fin & Oil Tec Inc	2	84.21	85.50	89.76	—	4.04
Intl Fin & Oil Tec Acc	2	81.26	82.50	86.62	—	4.04

Thornhill Unit Trust Managers Ltd (1200)F
29 St John's Sq, London EC1M 4AE 071-251 6767

Capital	5	45.08	45.41	48.30	—	—
Overseas	5	38.75	38.92	41.40	—	—

Thornton Unit Managers Ltd (1000)F
33 Cavendish Sq., London W1M 0DH 071-493 7262
Dealing 071-493 8545

American Opps	5	40.97	40.97	43.69	+0.57	0.26
(Accum Units)	5	42.16	42.16	44.96	+0.59	0.26
Cash	0	50.72	50.72	50.72	—	13.48
Accum Units	0	50.72	50.72	50.72	—	13.48
European Opps	5	59.48	59.48	63.27	+0.74	0.00
(Accum Units)	5	59.81	59.81	63.42	+0.75	0.00
Far Eastern Opps	5	102.45	102.71	109.55	+1.45	0.00

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Amer Expt Oct 23	37.2	38.6	+1.10	2.80
Euro Expt Oct 23	47.9	49.6	+1.20	3.00
Fixed Int Ex Oct 23	43.6	44.8	+0.30	10.44
Japan Expt Oct 23	42.9	44.7	+1.40	0.22
Managed Ex Oct 18	36.6	38.0xd	—	5.41
SE Asia Expt Oct 23	56.0	58.8xd	+2.40	4.57
Sm Cos Expt Oct 23	29.7	31.1	-0.2	4.94
UK Eqty Ex Oct 23	36.7	38.5	+0.20	5.22

Phillips & Drew Fund Management Ltd

Small Co's Oct 3	667.8	690.6	—	5.55
Do Accum	653.7	701.2	—	5.26
Int Expt Oct 17	142.9	148.0	—	4.96
UK Index Oct 3	955.0	975.6	—	5.25
Do Accum	1009	1029	—	5.25
Convertible Oct 19	77.66	80.20	—	9.48
World ex UK Index Oct 22	666.7	675.8	+42.0	2.22
Do Accum	666.7	675.8	+41.0	2.22
Japan Index Oct 22	574.6	585.0	+52.0	0.62
Do Accum	573.7	584.0	+53.1	0.62
USA Index Oct 22	730.4	738.1	+38.7	3.86
Do Accum	740.7	745.4	+39.1	3.86
Europe ex UK Index Oct 22	801.8	821.6	+22.2	3.08
Do Accum	814.3	834.5	+21.5	3.08
Pacific ex Jap Index Oct 22	733.7	755.2	+29.5	5.20
Do Accum	747.6	769.4	+30.1	5.20
Managed Exempt Oct 17	88.86	90.30	—	5.74
American Exempt Oct 17	92.13	93.90	—	4.09
European Exempt Oct 17	101.1	102.2	—	5.85
Japan Exempt Oct 17	108.2	109.5	—	1.26
Pacific Basin Oct 17	95.02	97.76	—	4.70

NM Rothschild Asset Management Ltd

NC Managed	52.6	56.0xd	+0.6	4.51
NC Property	174.3	191.2	—	—

J. Rothschild Fund Managers Ltd

NU Exempt Accum	117.6	118.6	—	4.23

Stewart Ivory & Co Ltd

Salaries PPP Sept 14	224.9	236.8	-6.5	—

Closed to new business

Thornton Unit Managers Ltd

Touche Remnant Unit Tst Mngt Ltd

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Acorn Life Assurance Ltd

AEtna Life Insurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Ambassador Life Assce. Co. Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co Ltd

Britannia Life Ltd

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd

Century Life Plc

Citibank British National

For City of Edinburgh Life Ass see Century Life Plc

City of Westminster Assurance Co Ltd

Clerical Medical/Fidelity International

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Insurance Co of America

Commercial Union Group

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Insurance Plc

Eagle Star Insurance Co Ltd

Eagle Star Insur./Midland Assur.

Economic Insurance Company Ltd

Equitable Life Assurance Society

Equity & Law

Family Assurance Society

Friends Provident

FT Unit Managers Ltd

General Accident (z)

General Portfolio Life Insur Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

The Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

ManuLife Group PLC

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Financial Management Corp PLC

National Mutual Life

OTHER UK UNIT TRUSTS

Continued on next page

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National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	305.8	321.9	+2.6	–
UK Equity	386.1	406.5	+4.4	–
Overseas Eq	292.4	307.8	+2.7	–
Americas	210.2	221.3	+2.1	–
Far East	318.1	334.9	-1.3	–
Property	191.1	201.2	+0.1	–
Fixed Int	231.2	243.4	+1.5	–
Indexed Gilt	143.5	151.1	+0.3	–
Deposit	171.2	180.3	...	–
Pension Fund (Accum Units)				
Managed	423.0	445.3	+3.5	–
UK Equity	491.3	517.2	+5.6	–
Overseas Eq	482.5	507.9	+3.2	–
Americas	278.7	293.4	+4.1	–
Far East	530.1	558.1	-0.1	–
Property	237.1	249.6	+0.1	–
Fixed Int	280.8	295.6	+1.9	–
Indexed Gilt	157.7	166.0	+0.3	–
Deposit	235.1	247.5	----	–
NPI Pensions Management Ltd				
Managed Fund	908.9	925.1	.....	–

Prices Oct 1 Next dealing Nov 1

Norwich Union Asset Management Ltd
PO Box 140 Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	+ or -	Yield Gross
NUAM Funds				
Managed Fund	61.7	64.9	+0.6	–
Stock Market Mngd Fund	58.2	61.3	+0.7	–
Equity Fund	66.3	69.8	+0.8	–
International Fund	51.0	53.7	+0.4	–
European Fund	61.9	65.2	+0.4	–
North American Fund	47.8	50.3	+0.5	–
Pacific Fund	53.4	56.2	+0.5	–
Property Fund	87.5	92.1	.....	–
Fixed Interest Fund	52.5	55.2	+0.1	–
Index linked Sec Fund	58.2	61.3	+0.1	–
Deposit Fund	65.7	69.2	.....	–
NUAM Retirement Plans				
Mixed Fund	66.6	70.1	+0.6	–
UK Ordinary Share Fd	76.0	79.9	+0.9	–
International Fund	55.4	58.4	+0.5	–
Property Fund	84.5	88.9		–
Fixed Interest Fund	62.6	65.9	+0.3	–

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Total Investment Bond				
UK Equity Initial	132.4		+2.5	–
UK Fixed Int Initial	107.0		+0.6	–
Intl Equities Initial	105.5		+1.9	–
UK Managed Initial	106.4		+1.3	–
Property Initial	164.3		..	–
Money Initial	83.9		..	–
Special Market Initial	97.3		+0.5	–
Japan Equity Initial	79.4		-0.5	–
North American Initial	62.9		+0.7	–
Pacific Initial	61.9		+0.1	–
Technology Initial	83.7		+4.1	–
Nat Resources Initial	44.3		+0.6	–
European Initial	83.5		-0.7	–
Residential Prop Init	93.9		.	–
Swiss Equities Initial	30.9		-0.2	–
Hong Kong Initial	45.1		+1.2	–
UK High Inc Eq Init	59.2		+0.5	–
Int Fixed Interest Init	49.2		..	–
Int Managed Init	50.0		+0.5	–
HIP Managed Init	96.3		+1.1	–
HIP Managed II Initial	86.0		+0.8	–
Broker Funds				
High Performance	61.6	64.9	+0.6	–
Towerhill Mngd Fd Acc	35.4	37.3	.....	–
YRA Executive Fd	85.1	89.7	+0.1	–
£ Global Growth Acc	113.6	119.8	+2.2	–
£ High Income Money Acc	132.0	139.2	..	–
IM Balanced	47.1		+0.4	–
H F. Speculator Fd	115.4		+1.5	–
PEP Acorn II	103.4		+0.3	–
PEP Cautionary	66.9		.	–
AAFS Int Man Fund	108.9		+0.3	–
Andrews-Green Inv Port	78.1		+0.5	–
Individual Pension Funds				
UK Equity Acc	208.9	220.4	+4.1	–
UK Fixed Interest Acc	193.9	204.6	+1.0	–
Intl Equities Acc	198.4	209.3	+4.6	–
UK Managed Acc	167.2	176.3	+2.0	–
Property Acc	208.7	220.2	.	–
Money Acc	149.3	157.5	+0.1	–
Special Market Acc	195.8	206.6	+1.1	–
Japan Equity Acc	160.9	169.8	-1.1	–
North American Acc	98.9	104.4	+3.1	–

Sun Alliance International Life
PO Box 77, New St, St Peter Port, Guernsey 0481 714108

	Bid Price	Offer Price	+ or -	Yield Gross
North American Equity $	$7.55	8.13	....	–
Pacific Equity $	$7.28	7.84		–
Intl Currency $	$4.24	4.57	......	–
Intl Bond Fund $	$6.81	7.34		–
Gilt Fund £	£3.93	4.24	.....	–
US Dollar Mngd Fd $	$1.55	1.67	...	–
Stlg Managed Fd £	£0.99	1.06	.	–

Target International Group
1 rue Emile Blau, Luxembourg Tlx 2809 Tel 4050751

	Bid Price	Offer Price	+ or -	Yield Gross
Sterling Pens Plan	£0.70	0.76	--	–
US Dollar Pens Plan	$0.69	0.75	....	–
Yen Pens Plan	Y236	242	.....	–
Ecu Pens Plan	Ecu0.62	0.68	...	–
Sterling Man Fd	£1.00	1.06	.....	–
Sterling Fixed Int Fd	£1.53	1.62	.	–
US Dollar Man Fd	$1.12	1.19	....	–
US Dollar Fixed Int Fd	$1.40	1.48	...	–
Ecu Bond Fd	Ecu1.08	1.14	..	–
Davenport Chelsch £ Fd	£0.76	0.83	.	–
Davenport Choice $ Fd	$0.50	0.54	.....	–
Davenport Chad £ F.I.	£1.08	1.16	.	–
LWI Universal Stg Mngd	£0.76	0.78	--	–
LWI Universal $ Mngd	$0.63	0.66	.	–
Matheson £ Pens	£0.74	0.78	....	–
Matheson $ Pens	$0.79	0.84	...	–
EDN MIM £	£0.85	0.92	.	–
EDN MIM $	$0.94	1.02	.	–
Royal Wessex Fund	£0.70	0.737	...	–
Wessex Special Sits	£0.99	1.036	....	–
Proinco $ Managed	$0.92	0.959	....	–
Proinco £ Managed	£0.97	1.018	..	–
Argent Stg Blncd		£10.60	---	–
Argent Stg Eqty Gth		£11.06	---	–
[illegible]		£1.00	.....	–

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 B6XF. 01-836 4321

	Bid Price	Offer Price	+ or -	Yield Gross
Target Mngd Bond	185.2	195.0	+0.6	–
Target Mngd Pension	112.1	118.1	+0.6	–
Albany Life Acc	167.1	175.8	+1.6	–
Albany Pens Acc	207.1	218.0	+2.6	–

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gross
Orion Fund Limited 6 Front St., Hamilton, HM11, Bermuda 809 295 4000						
Orion			$–	9.8907	...	–

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

GUERNSEY (REGULATED)

FT MANAGED FUNDS SERVICE

• Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

	Bid Price	Offer Price	+ or -	Yield Gross
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (DRr)	99.71	10.31	----	-
Mngd Portfolio (Stlg)	£3.64	3.91	----	-
Baring Currency Fund Ltd				
US Dollar		$14.52	+0.01	-
Sterling		£17.54	+0.02	-
Deutschemark		DM37.88	+0.02	-
Japanese Yen		Y3,786	+1	-
Managed	$42.02	44.12	-0.15	-
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	100115.49	115.69	----	-
Fipart-Consell Fund Mngrs (Guernsey) Ltd				
Hasterlife G & S Fd	SFr7.81	7.87	----	1.98
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	£0.3463	0.3692	+0.0015	13.27
Govett Far East Inv	$0.925	0.987	+0.015	-
Energy & Resources	$0.677	0.724	+0.003	-
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$8.9058	9.3611	----	-
Havelet Threadneedle Mngmt Ltd				
Intl Inv-Stlg High Inc	£9.906	10.452	----	10.09
Intl Inv-Intl High Inc	$48.685	51.255	----	5.54
Henderson Admin. (Guernsey)				
Prem Sec Portfolio	£0.908			
Balanced Gwth $ Prtflo	$1.824	1.966	+0.012	-
Balanced Gwth £ Prtflo	£1.052	1.131	+0.009	-
Select Mkts $ Prtflo	$1.827	1.976	+0.001	-
Inc & Gwth $ Prtflo	$1.664	1.768	+0.001	-
High Income £ Prtflo	£0.590	0.625	-0.001	-
Hill Samuel Fd. Mngrs. (Guernsey) Ltd				
Guernsey Tst	166.26	70.86	+0.92	2.73

	Bid Price	Offer Price	+ or -	Yield Gross
Sarasin (Isle of Man) Ltd				
Fergus Fd Oct 19		£11.82	----	-
UK Trust Oct 19		£8.41	----	-
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£7.75	8.38	----	-
Fleet Street Inv Fd	£7.04	7.49	----	-
Offshore Income Fd Ltd	£8.82	9.28	----	-
Nelson Wilson W/W S/S	£8.88	9.37	----	-
Tattersall Intl Assets	£6.32	6.52	----	-
Tyndall International (Isle of Man) Ltd				
H.J. Gilt/Bulldog	100.0	-	----	-
(Accum Shares)	159.3	167.4	+0.5	-
Unibank Scandinavian Fund Ltd				
Scandinavia Fd	167.88	178.67	+2.57	1.0

JERSEY (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67888						
Australian Eq (Inc)	5¼	$0.762	0.762	0.819	[illegible]	2.5
Global Income (Inc)	5¼	$0.401	0.401	0.433	[illegible]	4.6
Global Resources (I)	5¼	$0.335	0.335	0.365	[illegible]	1.3
Currency Fund						
Stlg Premium Income (I)		£10.21		10.22	+0.01	13.5
Capital House Fund Mgrs (CI) Ltd (0900)H						
PO Box 189, Capital Hse, Bath St., St. Helier, Jersey						
Tel: 0534 74689 (Dealing) 0534 75639 (Helpline)						
Facsimile: 0534 79040 Telex: 4192136						
Capital House International Growth Funds Ltd						
Equities						
UK Equity	5	£1.084	1.097	1.165	[illegible]	-
North American	5	$2.384	2.415	1.582	[illegible]	-

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

JERSEY (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar prey to political events

LACK OF fresh economic factors left the dollar prey to political events yesterday. It finished firmer in London after US President George Bush reaffirmed thatthere could be no compromise solution to the Gulf Crisis.

Mrs Margaret Thatcher, the UK prime minister, assured the exiled Emir of Kuwait that he had Britain's full backing. She also told parliament that Saudi Arabian policy on the Gulf was unchanged, despite suggestions that Riyadh is prepared to soften its attitude towards the Iraqi invasion of Kuwait. Prince Sultan Ibn Abdul Aziz, theSaudi defence minister, had earlier said that his apparently conciliatory remarks about the Iraqi invasion had been misinterpreted.

The assertion of determination by the US and its allies to drive Iraq out of Kuwait led to a firming of oil prices and to an upward trend in the dollar.

In separate developments President Bush, speaking in the US, said that he wants US interest rates down and that a cut in the Federal budget deficit of $500bn over the next five years would will succeed in doing this. Mr Bush's remarks had little impact on the dollar however, as the market continued to look for a compromise budget agreement between the White House and Congress on the issue.

Mr Patrice Vial, director of forecasting at the French Finance Ministry, said that France did not want the dollar to fall any further and that the US currency is now fully competitive. "The question is whether co-ordinated intervention is called for if it falls further," according to Mr Vial.

At the close in London the dollar had advanced to DM1.5175 from DM1.5160; to Y127.45 from Y126.00; to SFr1.2815 from SFr1.2805; and to FFr5.0800 from FFr5.0750. The dollar's index rose to 60.6 from 60.4.

Sterling held generally firm, showing small mixed changes, but continuing to benefit from Monday's news of the lowest UK trade deficit since April 1987. The pound's index rose 0.1 to 94.5. It fell 30 points to $1.9460 and also declined to DM2.9525 from DM2.9550 and to FFr9.8850 from FFr9.8900, but was unchanged at SFr2.4950 and rose to Y248.00 from Y245.50.

Within the European Monetary System the pound improved, but remained in line with the main group of currencies in the exchange rate mechanism and well below the highest placed Spanish peseta. The Spanish currency was 3.77 per cent above the weakest placed Italian lira, while the pound was 0.25 per cent above the lira, compared with 0.03 per cent on Monday.

In Paris the French franc touched its highest level against the D-Mark for nearly a month, despite an almost doubling of the French trade deficit in September to FFr10.13bn. The D-Mark was fixed at FFr3.3474 against FFr3.3485, the lowest level since September 28.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct 23	% change from central rate	% spread vs weakest narrow band currency	Divergence indicator
Spanish Peseta	133.631	129.207	-3.31	3.77	58
French Franc	6.89509	6.89760	0.04	0.30	2
Belgian Franc	42.4032	42.4240	0.05	0.28	1
Sterling	0.696904	0.697472	0.08	0.25	-2
Irish Punt	0.767417	0.768532	0.15	0.19	-3
German D-Mark	2.05586	2.06051	0.23	0.11	-9
Danish Krone	7.84195	7.86189	0.25	0.08	-8
Dutch Guilder	2.31643	2.32259	0.27	0.07	-9
Italian Lira	1538.24	1543.34	0.33	0.00	-12

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

£ IN NEW YORK

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd	15½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc.	16½	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	HFC Bank plc	14	United Mizrahi Bank	14
Bank of Scotland	14	● Hambros Bank	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Hampshire Trust Plc	15½	Western Trust	14
Barclays Bank	14	Heritable & Gen Inv Bnk.	14	Westpac Bank Corp.	14
Benchmark Bank	15	● Hill Samuel	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk.	14		
Clydesdale Bank	14	Midland Bank	14		
Comm. Bk. of London Plc	14	Mount Banking	14		
Co-operative Bank	*14	Nat Bk. of Kuwait	15		

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MONEY MARKETS

A softer tone

A FIRM pound and some hopes of a peaceful settlement of the Gulf crisis gave a softer tone to London interest rates yesterday. Three-month interbank eased to 13⅞-13¾ per cent from 13 15/16-13 13/16 and 12-month money declined to 13⅛-13 per cent from 13 3/16-13 1/16.

Short sterling futures traded quietly on Liffe. The better performance by the pound gave underlying support to prices, but unless the currency moves up towards towards the top of its ERM band dealers do not expect another cut in bank base rates. December short sterling opened higher at 86.61 and traded in a narrow range of 86.56 to 86.62 before closing at 86.58 compared with 86.57 previously.

UK clearing bank base lending rate 14 per cent from October 8, 1990

Day-to-day credit was in short supply on the money market, keeping overnight money firm at around 14 per cent before help was provided by the Bank of England. The authorities forecast that the shortage would be £900m, but revised this to £700m at noon.

Total assistance of £525m was provided. Before lunch the Bank of England bought £206m bills outright, by way of £9m bank bills in band 1 at 13⅞ per cent; £63m Treasury bills in band 2 at 13¾ per cent; and £134m bank bills in band 2 at 13¾ per cent. In the afternoon another £274m bills were purchased via £84m Treasury bills in band 1 at 13⅞ per cent; £161m bank bills in band 1 at 13⅞ per cent; and £29m bank bills in band 2 at 13¾ per cent. Late assistance of around £45m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £425m, with exchequer transactions absorbing £480m, and bank balances below target £90m. These outweighed a fall in the note circulation adding £95m to liquidity.

In Frankfurt call money was steady at 8.05 per cent after the Bundesbank offered liquidity to the banking system via a 29-day securities repurchase agreement tender. An earlier facility of DM11bn expires today. Dealers expect the maturing pact to be fully replaced at rates similar to the one-month repurchase tender set last week at 8.00-8.10 per cent.

In Brussels the Belgian National Bank cut the rate on three-month Treasury bills - the main instrument of credit policy - by 0.05 per cent to 8.85 per cent. Rates on one and two-month bills were reduced by similar amounts to 8.80 and 8.85 per cent respectively.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

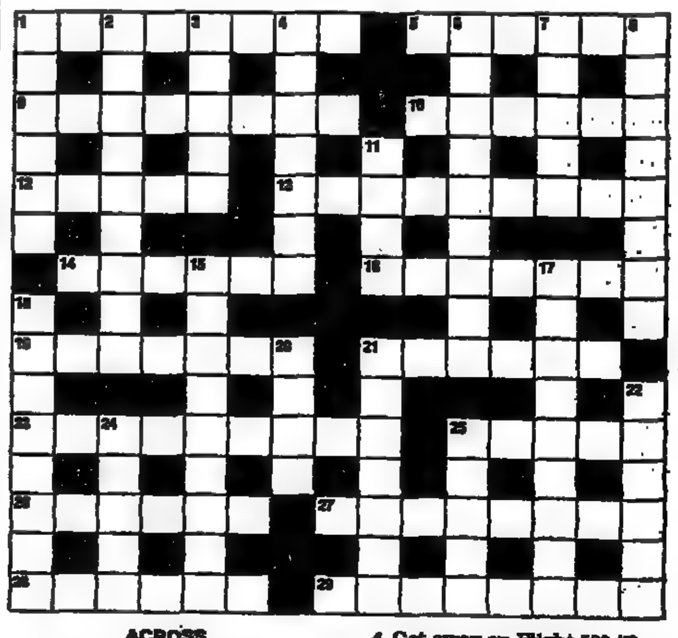
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,375 Set by GRIFFIN



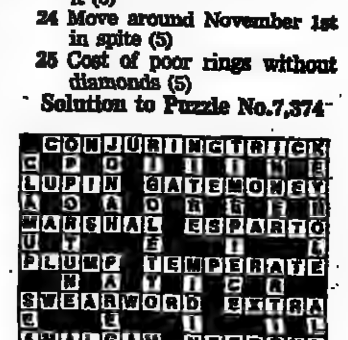
ACROSS

1 Jersey traffic cop's instruction? (8)
5 Clear mess behind parking lot (6)
9 Nun chose to become something unique (8)
10 Limiting one to skill reversing in street (6)
12 Lose student without writing about prophet (5)
13 Love nice lamp modelled out of copper (9)
14 Irritated snake in coloured box (6)
16 Loving first aid, doctor treated ours (7)
19 Rushed outside, ear pierced (7)
21 Reluctant French go back to Gaelic (6)
23 Face death without, as anticipated (9)
25 Risk for every one reaching 50 (5)
26 Ought sailors to have scoffed when decorated? (6)
27 Ring road crossed rainy plain (8)
28 Death of French compiler is included (6)
29 Forging on, traces forefather (8)

DOWN

1 Pop up with a man's hat (6)
2 Head disembarks before painting (9)
3 Fertile spot's huge, as I admitted (5)
4 Got away on Flight 500 (7)
6 Take choir round plant (9)
7 Delight church member (5)
8 A number coming in without unpunctuality (8)
11 Excuse parking on open ground (4)
15 Spongers raise past troubles (9)
17 Attentive attendant follows rising smell (9)
18 Daisy: I do exercise for a heavenly body! (8)
20 Likes archaeological excavations (4)
21 Soon accepts free-standing fire-dog (7)
22 Actor gets through a song in it (6)
24 Move around November 1st in spite (5)
25 Cost of poor rings without diamonds (5)

Solution to Puzzle No.7,374



WORLD STOCK MARKETS

AUSTRIA — October 23 — Sch. — + or −

[illegible]

BELGIUM/LUXEMBOURG — October 23 — Frs. — + or −

[illegible]

DENMARK — October 23 — Kr. — + or −

[illegible]

FINLAND — October 23 — Mks — + or −

[illegible]

FRANCE — October 23 — Frs. — + or −

[illegible]

FRANCE (continued) — October 23 — Frs. — + or −

[illegible]

GERMANY — October 23 — Dm. — + or −

[illegible]

GERMANY (continued) — October 23 — Dm. — + or −

[illegible]

ITALY — October 23 — Lire — + or −

[illegible]

ITALY (continued) — October 23 — Lire — + or −

[illegible]

NETHERLANDS — October 23 — Fls. — + or −

[illegible]

NORWAY — October 23 — Kroner — + or −

[illegible]

SPAIN — October 23 — Pts. — + or −

[illegible]

SWEDEN — October 23 — Kronor — + or −

[illegible]

SWITZERLAND — October 23 — Frs. — + or −

[illegible]

SOUTH AFRICA — October 23 — Rand — + or −

[illegible]

JAPAN — October 23 — Yen — + or −

[illegible]

AUSTRALIA (continued) — October 23 — Aust.$ — + or −

[illegible]

HONG KONG — October 23 — H.K.$ — + or −

[illegible]

AUSTRALIA — October 23 — Aust.$ — + or −

[illegible]

MALAYSIA — October 23 — MYR — + or −

[illegible]

SINGAPORE — October 23 — S$ — + or −

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO

Closing prices October 23

Sales — Stock — High — Low — Close — Chng

[illegible]

... 200 CHUM B f $17⅞ 17⅞ 17⅞ + ⅛; 6160 Cineplex 280 285 285 − 10; 500 Co Steel f $14⅞ 14⅞ 14⅞ − ⅛; 24525 TCC Bev 39⅛ 9⅞ 9⅞ + ⅛; 58103 Cominco $21⅛ 20⅞ 21 + ⅛; 1880 Computing 330 250 350; 14 C HCI A f 36⅛ 6⅛ 6⅛; 278032 Con TVX 55 415 5 +55 ...

1 Ipsco $15 16 15; 2213 Ivaco A f 36⅛ 6⅛ 6⅛; 500 Jannock $11⅞ 11⅞ 11⅞ − ⅛; 28400 Labatt $20 19⅞ 20 + ⅛; 68798 Lac Minrls 59⅛ 9⅞ 9⅞; 3049 Lafarge p $13⅞ 13⅞ 13⅞ + ⅛; 6800 Laidlaw A $21⅞ 21⅞ 21⅞ + ⅛; 494040 Laidlw B f $21⅞ 21 21⅞ + ⅛; 200 Lawr Bk $14⅞ 14⅞ 14⅞; 160 Lawr Gr B 36⅛ 6⅛ 6⅛ − ⅛ ...

336828 Royal Bnk $21⅞ 21⅞ 21½ + ⅛; 91471 Ry Trco 39⅛ 9⅛ 9⅛; 15600 SHL Syst 35⅛ 5⅛ 5⅛; 1200 SNC A f $13⅞ 13⅞ 13⅞; 15900 StL CemA f $13⅛ 13⅛ 13⅛ + ⅛; 28140 Saskoil $12⅞ 12⅞ 12⅞ + ⅛; 3000 Sceptre 380 385 385; 800 Scot Paper $16 16 16; 2030 Scotts f $13 12⅞ 12⅞ + ⅛; 87301 Seagram $94⅛ 93⅛ 93⅛ − ⅛ ...

t - No voting rights or restricted voting rights.

MONTREAL

Closing prices October 23

[illegible] ... 5850 Cascades 540 330 330 − 10; 1071 DomTxtA $08⅛ 08⅛ 08⅛ − ⅛; 400 Donohue $11⅞ 11⅞ 11⅞; 800 Memotec $07½ 07½ 07½ − ⅛; 185028 NatBk Cda $08⅛ 08 08 + ⅛; 73150 Power Corp $15 14⅞ 15 + ⅛; 3744 Provigo $08⅛ 08 08⅛; 2000 Quebecr A $12½ 12 12⅛; 11250 Quebecr B $10⅛ 10⅛ 10⅛ − ⅛; 1735 Videotron $10⅛ 10 10

Total Sales 5,456,808 shares.

INDICES

NEW YORK

DOW JONES	Oct. 23	Oct. 22	Oct. 19	Oct. 18	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2494.95	2516.09	2520.79	2452.72	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	89.39	89.17	89.20	89.13	93.04 (3/1)	88.44 (24/9)	—	—
Transport	875.00	885.69	868.16	856.86	1212.77 (6/6)	821.93 (17/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	209.95	210.89	209.08	208.31	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

(Day's High 2527.97 (2535.40) Low 2480.20 (2476.73)

STANDARD AND POOR'S	Oct. 23	Oct. 22	Oct. 19	Oct. 18	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	312.36	314.76	312.48	305.74	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	367.10	369.89	367.42	358.86	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	20.39	20.57	20.27	19.85	31.87 (3/1)	19.24 (11/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	170.50	171.52	170.40	167.13	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (28/4/42)
Amex Mkt. Value	292.97	292.35	285.71	291.84	382.45 (5/1)	289.13 (17/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	341.09	341.12	337.36	339.03	469.60 (16/7)	325.44 (16/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Oct. 10	Oct. 12	Oct. 5	year ago (approx.)
Dow Industrial Div. Yield	4.03	4.23	4.04	3.83

	Oct. 17	Oct. 10	Oct. 3	year ago (approx.)
S & P Industrial div. yield	3.59	3.56	3.62	3.20
S & P Indl. P/E ratio	14.15	14.28	14.85	13.00

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Chicorp	3,842,000	12⅞	− ⅛
Philip Morris	2,110,000	47⅞	− ⅛
MCA Inc	1,887,600	58⅞	+ 1⅛
Bristol MY	1,865,200	62⅞	− ⅛
Gen Electric	1,725,400	55⅞	+ ⅛
Am Express	1,634,200	20⅞	+ ⅛
Fannie Mae	1,525,500	29⅛	+ ⅛
IBM	1,432,200	106⅛	− 1
CAS/Sovran	1,431,400	16⅛	− 2⅛
Waste Man	1,375,700	34	+ ⅛

TRADING ACTIVITY

† Volume Millions	Oct. 23	Oct. 22	Oct. 19
New York	159.080	152.650	223.699
Amex	12.867	12.404	12.938
NASDAQ	(u)	114.666	159.114
Issues Traded	1,959	1,992	1,991
Rises	805	838	2,128
Falls	668	726	485
Unchanged	486	428	378
New Highs	11	9	15
New Lows	108	93	88

CANADA

TORONTO	Oct. 23	Oct. 22	Oct. 19	Oct. 18	1990 HIGH	1990 LOW
Metals & Minerals	2729.86	2747.52	2717.90	2650.30	3453.05 (4/1)	2588.00 (16/10)
Composite	3123.02	3115.45	3086.64	3060.02	4009.47 (3/1)	3009.91 (16/10)
MONTREAL Portfolio	1675.51	1672.77	1657.86	1642.16	2060.90 (3/1)	1607.24 (16/10)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct. 23	Oct. 22	Oct. 19	Oct. 18	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1383.1	1364.6	1368.6	1355.2	1713.7 (2/1)	1321.4 (15/10)
All Mining (1/1/80)	651.0	643.1	643.4	642.3	840.8 (5/1)	635.6 (15/10)
AUSTRIA						
Credit Aktien (30/12/84)	469.09	477.75	468.32	468.89	703.29 (1/1)	400.58 (25/9)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	5225.98	5157.65	5128.55	5098.56	6599.43 (12/1)	4958.99 (25/9)
DENMARK						
Copenhagen SE (3/1/83)	349.31	347.25	346.35	342.89	398.29 (20/7)	331.42 (27/9)
FINLAND						
Unitas General (1975)	403.2	405.6	408.7	411.6	677.3 (2/1)	401.2 (21/10)
FRANCE						
CAC General (31/12/82)	435.90	435.08	437.53	432.81	564.62 (30/5)	418.18 (26/9)
CAC 40 (31/12/87)	1675.67	1639.95	1644.70	1647.67	2129.32 (20/4)	1485.39 (25/9)
GERMANY						
FAZ Aktien (31/12/58)	640.78	634.85	635.24	629.29	832.32 (19/7)	564.64 (28/9)
Commerzbank (1/12/53)	1823.1	1805.6	1822.3	1804.40	2414.0 (3/4)	1628.7 (28/9)
DAX (30/12/87)	1534.34	1494.51	1482.89	1470.07	1968.55 (30/3)	1334.89 (28/9)
HONG KONG						
Hang Seng Bank (31/7/64)	3081.29	3035.56	2991.95	2950.52	3559.89 (23/7)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1346.26	1324.61	1297.30	1298.87	1893.10 (22/1)	1207.47 (1/10)
ITALY						
Banca Com. Ital. (1972)	581.77	571.18	562.94	(u)	753.52 (14/5)	552.69 (17/10)
JAPAN						
Nikkei (16/5/49)	25298.30	25070.06	24401.49	24367.08	38712.88 (4/1)	20221.86 (1/10)
Tokyo SE (Topix) (4/1/68)	1859.56	1858.30	1806.29	1783.53	2867.70 (4/1)	1523.43 (1/10)
2nd Section (4/1/68)	3236.11	3171.55	3112.96	3065.14	4477.16 (16/7)	2859.49 (1/10)
MALAYSIA						
KLSE Composite (4/4/86)	507.71	495.73	476.79	464.44	632.22 (1/8)	459.08 (28/9)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	237.8	234.8	233.8	233.5	271.9 (20/7)	228.2 (28/9)
CBS All Shr (End 1983)	174.6	171.8	171.8	171.4	205.3 (3/1)	167.6 (28/9)
NORWAY						
Oslo SE Ind (2/1/83)	762.96	740.09	752.95	757.28	915.13 (2/8)	701.47 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	555.00	547.46	548.45	537.25	1160.70 (21/3)	514.80 (5/10)
SINGAPORE						
SES All-Singapore (2/4/75)	334.39	324.18	313.84	306.69	446.87 (16/7)	302.45 (11/10)
SOUTH AFRICA						
JSE Gold (28/9/78)	1398.0	1393.0	1350.0	1363.0	2230.0 (16/1)	1322.0 (20/8)
JSE Industrial (28/9/78)	2681.0	2666.0	2657.0	2653.0	3211.0 (6/6)	2640.0 (1/10)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	748.93	733.37	696.01	666.56	928.82 (4/1)	566.27 (17/9)
SPAIN						
Madrid SE (30/12/85)	241.00	234.70	232.45	228.95	309.74 (16/7)	209.37 (28/9)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	950.5	941.9	915.1	929.6	1329.9 (5/7)	910.0 (28/9)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	670.9	663.8	665.3	659.2	845.5 (13/7)	613.4 (28/9)
TAIWAN**						
Weighted Price (30/6/66)	3308.57	3226.39	2956.90	2891.11	12495.34 (10/2)	2560.47 (1/10)
THAILAND						
Bangkok SET (30/4/75)	(u)	680.33	652.16	649.28	1143.78 (25/7)	613.95 (25/9)
WORLD						
M.S. Capital Intl.(1/1/70) (c)	478.3*	477.9	478.9	464.8	571.0 (4/1)	421.1 (28/9)

**Saturday October 20: Taiwan Weighted Price 3085.02 Korea Comp Ex. 710.44

& Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday 23 October 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
M'bishi Heavy	16.5m	785	-24	Hitachi	9.1m	1,240	-10
Nippon Steel	12.2m	472	-18	Fjima Hme	8.4m	783	-62
Sanyo Elec	11.7m	734	+39	Isuzu Motors	8.2m	680	+55
Fujita Corp	10.5m	1,590	+10	S'tomo Metal	7.2m	505	-15
Kobe Steel	10.5m	698	-16	Sato Kogyo	7.1m	1,720	-50

4pm prices October 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
37½	9½	AAR	.48	4.0	8	x1017	12⅝	11⅞	12⅛	+ ⅝
9⅝	7⅞	ACM n	1.01	12.		87	8¼	8⅛	8¼	+ ⅛
11½	8⅞	ACMIn	1.28	13.		409	9⅝	9⅛	9⅝	
9⅛	6½	ACM M	n1.01	14.		505	7⅜	7⅛	7⅜	+ ⅛
12⅛	10	ACMMM	1.50	13.		185	11⅝	11½	11½	– ⅛
11½	8⅝	ACM Se	1.25	13.		1009	9⅝	9½	9½	– ⅛
9⅝	7⅛	ACMSp	1.01	12.		661	8⅛	8	8⅛	
24⅝	15½	AL Lab	.16	.3	16	354	18⅞	18⅛	18⅞	+ ⅛
5⅜	1	AM Intl				229	1⅛	1	1	
22⅛	4⅛	AM In pf	2	40.		281	5⅛	d 4⅝	5	+ ⅛
74⅛	39⅛	AMR			14	6221	49⅛	49⅛	49⅛	– ⅛
24⅝	22⅛	ANR pf	2.12	9.1		9	23⅛	23⅛	23⅛	+ ⅛
4⅛	2	ARX			7	281	2⅛	2⅛	2⅛	+ ⅛
72⅞	38⅛	ASA	3a	7.2		675	41⅞	41½	41⅝	+ ⅛
46⅝	31⅛	AbtLab	s.84	1.9	20	7457	44⅝	43½	43½	– 1⅛
14	11⅛	Abitibi g	.50			65	11½	11½	11½	+ ⅛
11⅞	4⅞	AcmeC	.40	7.3	7	21	5½	5¼	5½	+ ⅛
9⅝	5⅞	AcmeE	.32	5.6	7	17	5⅞	5⅝	5⅝	+ ⅛
32⅛	16⅞	Acuson s			24	611	28⅛	27⅛	28⅛	+ 1
16⅞	14⅛	AdaEx	2.06e	14.		121	15⅛	15⅛	15⅛	
15⅜	10	Adobe				99	11⅛	11	11⅛	+ ⅛
20⅛	15½	Adob pf	1.84	11.		14	16⅞	16⅞	16⅞	+ ⅛
21⅝	19⅝	Adob pf	2.40	12.		20	20	19⅞	19⅞	– ⅛
11⅝	3⅝	AMD				1177	4⅛	4	4	
32⅛	16	AMD pf	3	18.		85	17⅝	16⅞	16⅞	– ⅝
9⅛	1⅛	Advest	.16	7.5	27	304	2⅛	2	2⅛	
62½	29⅝	AetnLf	2.76	8.4	6	3316	33⅛	32½	32⅞	
13	7⅛	AhPb	.24	3.4		850	7⅛	d 7	7⅛	– ⅛
22⅛	11⅜	Ahmans	.88	6.6	8	1542	13⅛	12½	12⅞	+ ⅛
3⅝	1⅞	Aileen			8	15	3⅛	3⅛	3⅛	– ⅛
67	42⅞	AirPrd	1.44	3.0	12	1256	48	47⅛	48⅛	+ 1
27	13½	AirFrt s	.30	1.7	10	1120	18⅛	17⅞	17⅞	– ⅛
24½	11⅛	Airgas			21	86	11⅞	11½	11½	

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
70	45½	ReyMtl	1.80	3.3	8	1317	55¾	54¾	55	−⅛
87⅞	56⅛	RP Rorr n				610	65½	64⅞	65	+1
19	8⅞	RhP pfA	1.60e	18.		7	9	d 8¾	9	
3½	⅜	RhnP wi				325	⅜	¼	⅜	+⅛
22	9¼	RhnPl n	1.60e	16.		5	9⅞	9⅞	9⅞	
39	28½	RiteAid	.90	2.8	13	547	32	31¼	31⅞	
11-32	3-64	RvrOak				7	1-16	1-16	1-16	−1-128
14⅞	3¼	Robtsn				102	5⅛	4⅞	4⅞	
22⅞	16⅞	RochG	1.56	8.4	10	34	18⅝	18½	18½	
48½	24⅞	RochTl	1.48	5.9	14	248	25¼	25	25	
22⅛	15⅛	RckCtr	1.88	10.	17	747	18⅛	17⅞	18	
28⅞	19¼	Rockwl	.96	3.4	10	1625	25½	25	25	−⅜
7⅞	4½	RodRen			11	20	4⅞	4⅞	4⅞	+⅛
35⅞	24⅛	RoHaas	1.24	3.9	11	1030	32	31⅞	31⅞	+⅝
25¼	11½	Rohr				1062	13⅞	13¼	13½	
16⅛	7¼	RollnE	.09	1.1	19	1674	8½	7⅞	8	+⅛
20⅞	15⅞	Rollins	.56	3.2	16	129	17⅝	17⅝	17⅝	
9⅛	5⅞	RolLease	.20	3.3	6	120	6	5⅞	6	
15⅞	5⅛	Rowan				1506	13¼	12⅝	12⅞	−¼
25⅛	19⅝	RBSct pr	2.85e	14.		156	21⅛	20½	20½	−⅝
87	64⅞	RoyID	4.25e	5.3	12	3634	80⅞	79⅝	79½	+¼
9⅞	7⅛	Royce	.52e	7.2		59	7⅜	7¼	7¼	−⅜
45	31	Rubmd	.52	1.4	27	526	37⅞	36½	36⅞	−⅜
18⅞	13⅛	RussBr	.40	2.8	13	64	14⅝	14⅜	14⅜	+⅛
13	5⅛	RussTg	.20	3.3		44	6	5⅞	6	+⅛
31	18	Russell	.32	1.7	12	1845	19	18¼	18½	−¼
20½	12⅞	Ryder	.60	4.4	41	3020	14	13⅝	13⅝	−⅜
26	15¼	Rykoff	.60	3.8	17	153	16⅛	16	16	+¼
22	9½	Ryland	.60	5.9	8	93	10¼	10⅛	10¼	−⅜
12⅛	4	Rymer				7	4⅞	4⅞	4⅞	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
62⅞	29⅞	Xerox	3	9.5	6	2181	32⅞	31⅞	31½	−1⅝
32⅞	13⅛	XTRA	.72	4.8		175	15	14⅝	14⅞	−⅛
26	13⅛	XTRA pf	1.96	14.		64	14⅛	13⅞	13⅞	−½
4	⅝	Zapata				482	1	⅞	⅞	−1-16
9⅛	4	Zayre				28	4	d 3⅞	4	−⅛
14	4	ZenithE				3030	5⅞	4⅞	5⅛	+1
16⅛	10⅛	ZenNtl	.88	8.5	6	35	10⅜	10¼	10⅜	+⅛
8⅞	4⅛	Zenix	.90	21.		201	4⅜	4½	4½	−⅛
17⅝	9⅞	Zero	.40	3.9	11	187	10⅜	10¼	10⅜	
61⅛	29⅞	Zurn	.75	2.2	15	695	35⅛	33	34⅞	+1⅛
12⅞	10⅛	Zweig	1.18e	11.		146	10½	10⅜	10⅜	
10	7⅞	ZweigTl	.84	9.7		1123	8⅝	8½	8⅝	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices October 23

NASDAQ NATIONAL MARKET

3pm prices October 23

AMERICA

Individual shares mixed as Dow gently declines

Wall Street

A QUIET day on Wall Street saw equities turning lower in the absence of any economic news of note, *writes Karen Zagor in New York.*

The Dow Jones Industrial Average ended 22.03 down at 2,494.06, posting a good deal of the loss in the last half-hour of trading. Volume on the New York SE amounted to 146.3m shares.

Trading was directionless, with advancing issues narrowly leading those declining by 804 to 688. The Standard & Poor's 500 index receded 2.41 to 312.35 but the American SE composite added 0.74 at 302.97.

C & S Sovran fell $2⅝ to $16¼ after an analyst at Painewebber downgraded his investment rating on the stock to unattractive from neutral. The analyst also reduced fourth-quarter earnings estimates for the company, citing deepening loan problems in the Washington DC area.

Motorola put on $1⅛ to $54⅜ after announcing a new method for sending data at high speeds within buildings using digital radio transmission, which will allow computers to be moved from one office to another without having to lay down new wiring.

Bristol-Myers Squibb was unchanged at $63⅜. Late yesterday the company said the Food and Drug Administration had approved its cholesterol drug.

Walt Disney gained $⅜ to $96⅛ after stating that it has a $600m financing package with Japanese institutional investors to replace the US limited partnerships which have financed its film-making in the past few years.

Texaco slipped $⅛ to $57⅛ in spite of turning in a 25 per cent rise in net income, helped by higher crude oil prices, while Mobil lost $1⅛ to $57 on reporting net income of 89 cents a share, down from $1.30 posted a year ago.

Among the most actively traded shares were Philip Morris, the tobacco and foods group, which lost $⅜ to $47⅞, General Electric, which hardened $⅛ at $53⅞, and Citicorp, down $¼ at $12⅝ and which a week ago unveiled depressing third-quarter results.

American Express improved $¼ to $20. Late on Monday the company reported a 3.6 per cent rise in third-quarter net profits after the problems at its troubled Shearson Lehman Brothers subsidiary held back nine-month earnings.

The secondary market outperformed listed issues, with the NASDAQ composite showing a gain through most of the day before settling marginally lower at 341.08, down a net 0.04.

Technology issues continued to pace over-the-counter trading, with Conner Peripherals ahead $1¼ to $22⅞, Sun Microsystems down $2⅛ at $20⅛, MCI Communications up $⅛ at $29⅜ and Apple Computer $⅛ off at $31⅛.

Canada

THE Toronto market enjoyed its fifth rise in as many sessions, helped by the continued decline in crude oil prices.

The composite index added 7.6 at 3,123.0 as rises edged out falls by 288 to 263. Volume was light but increased to 18.1m shares from Monday's 17.2m.

Prophetic words enhance Spanish recovery

Peter Bruce writes of dreams on television, and the real economic and industrial threat

ON MONDAY night, the lead item on Spanish television news was about a dream in which the prophet Mohammed had appeared before Saddam Hussein and told him to withdraw from Kuwait and just hold on to some key islands at the mouth of the Shatt-al-Arab.

This event went unreported in the following day's newspapers, but enough Spaniards watch television for the prophet's intervention to have had an effect. The Madrid index rose 6.38 points yesterday to 241.08, 10.6 per cent up on the beginning of last week.

In truth, what may be the start of a healthy recovery commenced last week, when the index gained 6.8 per cent to 231.58. Ministers and officials had begun to speak of lifting capital controls next year, 12 months earlier than the original deadline, and to hint strongly that the economy may be cooling down so fast now that interest rates have probably peaked.

Deepish budget cuts are promised for next year. Peter Stevens at Barclays, Pizarro y Recoder, says that this indicates that the authorities have moved much more towards "the idea of quite a hard landing" after a year-long credit squeeze.

Madrid fell more dramatically than any other European Community market after Iraq's invasion of Kuwait, largely because of the country's high dependency on imported oil. Even prior to this, companies were already beginning to feel the effects of the Government's restrictive monetary policies.

The Madrid index has fallen 18 per cent since August 2 and, along with Finland and New Zealand, Madrid was one of the few markets in the world incapable of holding total capitalisation above book value. Its normally low p/e ratios, around 11.5 at the end of July, have slithered down to an average 8.4. The place is cheap.

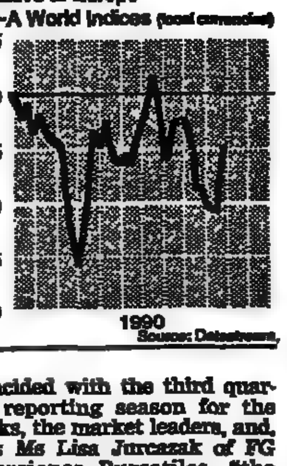
Buyers have come rushing back in the last 10 days, say brokers. Trading volumes of around Pta10bn a day now are double what they were two weeks ago and approaching the Pta15bn to Pta18bn of before the Gulf crisis.

The recovery has also neatly coincided with the third quarter reporting season for the banks, the market leaders, and, says Ms Lisa Jurcazak of FG Inversiones Bursatiles, "the numbers are very helpful".

Spain

Relative to Europe

FT-A World Indices (local currencies)



Banco Santander has just reported a 19.5 per cent rise in net profit margin for the group and most of the banks have made big provisions early, which may mean even better year-end profit figures. "We're having a very nice run," comments Ms Jurcazak.

Indeed, the market seems to have absorbed, quite calmly, the real threat of economic and industrial freeze settling over the country. Car sales are down sharply on last year but stocks like Citroen and Peugeot have already discounted losses and are trading at p/e's of below 2.

Even the utilities which suffered from the oil price shock are rebounding strongly, mainly because they are addictive borrowers: even the most remote possibility of interest rate falls is normally received with celebration.

Fecsa is up 16 per cent since last week and the others are rising with the market. Construction, which may feel the effects of budget cuts and dearer oil later, is still feeding on long order backlogs.

The index could begin to approach 300 before the end of the year, some brokers suggest, though there is bound to be a lot of profit-taking if prices continue to rise like this for the next two or three weeks.

The uncertainties – Mr Saddam's dream state notwithstanding – are macroeconomic. Even if the Government lifts credit restrictions at the end of the year, will there be anyone left to borrow from the banks? The retail business will be tough. But at least the explosion last year in corporate paper – when companies, turned away by creditor banks under Bank of Spain instruction, increased the amount of paper in circulation from $6bn to $20bn – is over, the bubble burst by the reduction in the gap between Treasury Bill and commercial paper yields and a general slackening of investment. Analysts are confident, though, that the banks would find plenty of corporate business around if their credit ceilings are lifted.

ASIA PACIFIC

Nikkei rises further but volume falls back again

Tokyo

THE CONTINUING fall in oil prices and the firm bond market ensured a further gain for equities yesterday as investors confidently sought bargains in a wide range of sectors, *writes Martina Gannon in Tokyo.*

The Nikkei average improved for the seventh consecutive trading day to close at 25,298.30, up 227.44, although volume slipped to 550m shares from Monday's 600m. The day's high was 25,432.90 and the low, reached *shortly after the opening*, was 25,083.53.

The Topix index of all listed stocks added 1.26 at 1,859.59. Advancing issues outscored declines by 553 to 429, while 129 issues were unchanged. In London the ISE/Nikkei 50 index receded 11.31 to 1,417.22.

Investors, spurred by hopes of an easing in the Middle East situation, turned their attention to recently neglected areas, including high-techs and heavy electricals, although most sectors ended mixed.

NTT, which advanced by its daily limit of Y100,000 on Monday, gained a further Y43,000 to Y973,000 for its sixth rise in a row.

Export-oriented issues fared well, with Sony climbing Y170 to Y6,770, Victor rising Y70 to Y1,770 and Toshiba adding Y10 at Y831.

Other morning gainers were food and brewery, paper and pulp and precision instrument issues. Toyo Jozo rose Y20 to Y1,240, although Kirin Brewery slipped back Y10 to Y1,580. Oji Paper gained Y15 to Y855 and Nikon rose Y50 to Y1,150.

Many stocks were lifted by the fall in crude oil futures prices in New York, including Tokyo Electric Power, which added Y30 at Y3,450, and Nippon Oil, which advanced Y20 to Y1,020.

Tokio Marine and Fire Insurance, having risen for seven straight business days, retreated on profit-taking to Y1,270 for a fall of Y40. Brokers did not expect the stock to decline much below that level due to growing expectations of lower long-term domestic interest rates.

The financial sector was mixed. Mitsui Taiyo Kobe Bank rose Y30 to Y1,690 and Bank of Tokyo added Y20 at Y1,020. Sumitomo Bank lost Y60 to Y1,820. The latter announced yesterday a major reorganisation plan in an effort to shake off the effects of an illegal loan scandal, which led to the resignation of the bank's chairman. Nomura Securities shed Y70 to Y1,840.

Chemicals, real estates and pharmaceuticals also showed *no clear trend*. Takeda Chemical fell Y60 to Y1,690 and Asahi Chemical shed Y4 to Y804.

Broad-based buying in Osaka lifted the OSE average 297 points to 28,557.88, although volume dipped to 42.6m shares from 47.9m. Textiles and chemicals were in good form but domestic demand-related stocks were lacklustre. Constructions trimmed some of Monday's gains.

Roundup

PACIFIC RIM markets benefited across the board as the steep fall in oil prices injected confidence.

AUSTRALIA rose sharply, assisted by a surge in News Corp and the on-market purchase of Elders IXL stock by the Japanese brewer Asahi. The All-Ordinaries index climbed 18.5 to 1,383.1, while turnover expanded to A$255.8m from A$139m.

The Elders transactions accounted for 2 per cent of yesterday's turnover and the stock finished three cents firmer at A$1.37. News Corp jumped 54 cents to A$6.10 on Mr Rupert Murdoch's prediction that the company would trade ahead of last year.

NEW ZEALAND recouped an initial loss to end higher on the back of rises in Fletcher Challenge and Brierley Investments. Prices elsewhere were flat to lower.

The Barclays index ended a net 6.59 firmer at 1,450.43, its sixth consecutive gain, on a turnover of NZ$9.98m.

BOMBAY stockbrokers boycotted trading when exchange authorities imposed curbs to prevent a market crash after a major political ally withdrew its support for India's minority government, threatening a collapse in the administration.

The exchange banned forward trading and stipulated that sales and purchases of shares be delivered on the spot.

SEOUL gained ground in lighter trading as rumours continued to circulate that the government would soon unveil specific measures to realign the financial industry.

The composite index stood at 765.56 near the close of the morning session, up 32.18. Almost 90 per cent of stocks reached their maximum upper limits and turnover came to Won265bn, against Won394bn.

KUALA LUMPUR advanced as the ruling coalition's landslide victory in the weekend general election prompted further buying. The composite index rose 11.96, or 2.41 per cent, to 507.71, breaching the 500 mark for the first time since September 21.

SINGAPORE closed sharply higher. The Straits Times Industrial index jumped 36.67, or 3.12 per cent, to end at 1,209.90. Strong demand from individual investors and foreign and local institutions lifted prices higher from the outset and turnover rose to S$176.5m from S$127m.

TAIWAN strengthened, with the weighted index gaining 84.38, or 2.6 per cent, to 3,300.57, while volume increased to T$59.7bn from T$42.5bn.

HONG KONG rose 2.1 per cent in the heaviest trading for almost two months. The Hang Seng index surged 65.67 to 3,081.23, its highest close since mid-September. Turnover swelled to HK$1.35bn from HK$982m.

MANILA moved higher in a surge of buying during the final half-hour of trading as a scheduled general strike by organised labour and transport groups appeared to have been disregarded. The composite index rose 7.35 to 555 on volume of 53.5m pesos (42.2m).

EUROPE

Frankfurt surprises its followers once more

BOURSES were generally firmer yesterday, in an atmosphere which suggested that investors, as well as dealers, were interested in shares at yesterday's levels, *writes Our Markets Staff.*

FRANKFURT changed course, and surprised observers yet again. Following Monday's move from hope to depression, yesterday's weak start was followed by an uptrend which saw the DAX close 39.83, or 2.7 per cent higher at 1,514.34 after a 5.93 rise to 640.78 in the FAZ at midsession.

Ms Barbara Altmann, a dealer with B Metzler in Frankfurt, said that after a slight opening decline, some orders appeared along with a story that operators on the Deutsche Terminbörse, Germany's options exchange, might have found themselves short of *stock to cover some of their* obligations.

Volume rose from DM4.5bn to DM6.1bn, and since traders had been keeping their equity positions tight, some individual shares showed large rises. Allianz put on DM120 to DM2,265. The insurance company has the highest Beta factor among the components of the DAX index, noted one analyst yesterday, meaning that it tends to exaggerate the trend of the market – whether shares are going up, or down.

Other big international blue chips did well, with Daimler up DM14.60 to DM628.50, Deutsche Bank DM19.30 to DM644.80 and Siemens, usually the quietest of this trio, DM23.60 better at DM610. However, there were bigger rises in retailing where Kaufhof rose DM37 to DM587 and Kaufhof DM40.80 to DM592.80. Ms Altmann observed that while poor economic news may have contributed to Monday's gloom, consideration of Germany's high savings ratio may have helped the consumer stocks yesterday.

Chemicals remained out of favour, BASF rising only DM0.60 to DM207.30 on the cyclical downtrend and Schering, which has seen profit taking after relative strength, just DM0.50 to DM700. Lower oil prices were reflected in Lufthansa's DM6 rise to DM122.80.

PARIS closed firmer on the last day of the account, with activity dominated by block trades in companies which were merging with each other. The CAC 40 index rose 36.22 to 1,676.17, in volume estimated at around FFr2bn.

Michelin bounced back by FFr3.10 or *5.2* per cent to FFr63.20 with 308,500 shares traded. Dealers said this was mainly a technical reaction to last week's plunge. One salesman noted that many traders had bought Michelin shares before Thursday's ill-fated meeting in anticipation of good news, and they would use any strength to offload their long positions.

Mr John Glendinning at *Charterhouse Tilney said that* a flight to quality was increasingly evident among French stocks, though speculative stocks still had some attraction. Blue-chips such as CGE, Suez and LVMH were in demand and were likely to continue to outperform the market, he added. Suez, due to report its first half results today, rose FFr12.90 to FFr327.50 with a heavy 389,980 shares dealt. The market is expecting a profit rise of 20 per cent including exceptional items.

An imminent issue of dollar-denominated three-year warrants on the CAC 40 index which will be quoted in New York attracted interest. The issuer was reported to be the Kingdom of Denmark via Lehman Brothers though the latter was not available for confirmation.

Générale des Eaux, which showed a healthy 19.1 per cent rise in first half group net profit, rose FFr61 to FFr2,360. There were several block trades in Axa Midi which rose *FFr6.60 to FFr218.*

MILAN rose in technical trading as professionals covered short positions. The Comit index rose 10.09 to 581.77.

Fiat, which said that it was cutting 1990 car output by another 15,000 for a total planned reduction of 90,000, rose L65 to L6,609. Analysts said that the latest cutback was worrying as it affected production of the Tipo and the Tempra, Fiat's latest models. *Fiat* is also doubling the number of workers to be laid off in November to 77,000.

Stocks in companies controlled by Mr Carlo de Benedetti were still in demand. Olivetti rose L140 to L4,390 on continued talk of a mobile phone agreement with AT&T or an alliance with the state telecommunications firm Stet. There were also hopes that the computer company had turned the corner. However, some analysts feared that Olivetti's future was still bleak and described the stock's latest rise as a technical bounce.

AMSTERDAM closed at the *day's highs, supported by a* stronger dollar and falling oil prices. But volume remained thin. The CBS Tendency index closed up 1.9 at 98.5.

The market did not react to news that Philips had settled for $9.25m a US class action lawsuit in which shareholders claimed that Philips had been unduly optimistic in its comments during the months before its May 3 announcement of sharply lower first quarter profits. Philips edged up 20 cents to Fl 21.00. Analysts feared that while Philips believes the claims are groundless, this settlement might lead to further payments to other disgruntled shareholders. Philips reports its third quarter results on Thursday.

Fokker rose Fl 1.20 to Fl 39.90 as options in the stock began trading yesterday.

ZURICH was boosted by bargain-hunting in blue chips like Brown Boveri, Roche and Zurich Insurance as the Crédit Suisse index rose 5.8 to 508.8.

Roche Holding led chemicals, with its certificates firming SFr80 to SFr3,870, and in engineering Brown Boveri gained SFr100 to SFr4,740.

HELSINKI lagged behind, the Unitas all-share index falling 2.4 to 403.2.

SOUTH AFRICA

THERE was selective demand for quality issues as the financial rand eased further. De Beers closed R1.45 better at R63.75 after touching R64.75. The all-gold index rose 15 to 1,858 and the all-share index put on 43 to 2,629.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY OCTOBER 23 1990								MONDAY OCTOBER 22 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (78)	127.38	+0.8	97.04	102.62	100.50	108.99	+1.1	7.06	126.83	96.33	100.86	99.81	107.81	158.51	123.48	146.28
Austria (19)	210.22	+1.5	160.16	169.37	165.85	165.83	+1.8	1.65	207.06	157.58	164.94	163.22	162.85	265.65	178.57	163.79
Belgium (61)	138.14	+1.2	105.24	111.26	108.98	106.45	+1.6	5.44	136.45	103.80	108.67	107.54	104.82	160.02	126.87	144.03
Canada (120)	123.81	+0.2	94.33	99.74	97.68	105.03	+0.1	3.79	123.56	93.99	98.40	97.38	104.95	153.01	121.34	148.86
Denmark (33)	260.10	+0.1	198.16	209.55	205.21	205.09	+0.7	1.45	259.75	197.58	206.89	204.73	203.67	277.62	234.05	210.38
Finland (26)	98.91	−1.3	75.38	79.69	78.04	74.66	−0.8	3.67	100.25	76.25	79.85	79.01	75.22	152.29	98.91	124.99
France (123)	142.04	+1.6	108.21	114.42	112.05	113.19	+1.7	3.63	139.74	106.30	111.29	110.13	111.25	166.85	124.98	133.93
Germany (91)	117.49	+1.0	89.51	94.68	92.69	92.69	+1.1	2.45	116.30	88.47	92.64	91.66	91.66	144.63	101.38	98.33
Hong Kong (46)	125.66	+2.5	95.73	101.23	99.14	125.59	+2.5	5.25	122.65	93.30	97.69	96.67	122.58	147.49	112.24	115.21
Ireland (17)	165.90	+2.0	126.39	133.65	130.88	132.36	+2.3	3.95	162.61	123.69	129.51	128.16	129.41	198.57	139.04	168.87
Italy (91)	88.45	+2.0	67.38	71.25	69.76	75.09	+2.2	3.28	86.69	65.95	69.04	68.33	73.50	109.26	80.87	88.08
Japan (454)	140.30	−1.3	106.89	113.03	110.70	113.03	−0.2	0.75	142.16	108.14	113.22	112.06	113.22	197.26	106.58	187.26
Malaysia (35)	205.95	+4.4	156.90	165.91	162.47	214.23	+4.5	2.93	197.32	150.10	157.15	155.52	204.92	250.89	182.98	202.89
Mexico (13)	533.32	+0.6	406.32	429.66	420.76	1726.00	+2.0	0.39	530.13	403.26	422.23	417.85	1692.49	561.41	324.53	325.94
Netherland (41)	136.86	+1.6	104.27	110.26	107.97	106.87	+1.7	5.36	134.72	102.48	107.30	106.18	105.08	149.05	127.56	126.40
New Zealand (16)	54.54	+0.1	41.55	43.94	43.03	48.02	+0.8	7.01	54.47	41.44	43.39	42.94	47.64	78.35	50.73	77.80
Norway (27)	241.66	+0.4	184.04	194.61	190.58	193.53	+0.8	1.60	240.69	183.04	191.65	189.66	192.97	276.79	202.34	175.10
Singapore (25)	168.20	+3.2	128.14	135.51	132.70	132.62	+3.4	3.22	163.00	123.99	129.83	128.47	128.22	209.24	147.24	158.82
South Africa (60)	160.64	+1.2	122.38	129.41	126.73	131.76	+1.6	4.25	158.66	120.69	126.37	125.05	129.65	251.39	151.60	143.94
Spain (42)	152.50	+2.5	116.18	122.86	120.31	109.99	+2.7	5.05	148.73	113.14	118.46	117.22	107.10	182.25	128.54	180.46
Sweden (27)	178.83	+0.5	136.25	144.08	141.09	148.79	+0.7	2.73	177.97	135.38	141.75	140.28	147.74	234.95	159.07	178.64
Switzerland (67)	95.00	+1.0	72.38	76.54	74.96	75.48	+1.0	2.84	94.10	71.58	74.95	74.17	74.70	109.77	85.00	87.99
United Kingdom (300)	165.32	+0.9	125.95	133.10	130.42	125.95	+1.1	5.53	163.80	124.60	130.45	129.09	124.60	178.18	139.87	141.46
USA (533)	125.84	−0.7	95.87	101.39	99.29	125.84	−0.7	3.89	126.79	96.44	100.98	99.93	126.79	148.95	119.06	139.58
Europe (965)	139.74	+1.2	106.46	112.58	110.25	108.49	+1.3	4.31	138.09	105.04	109.98	108.84	107.06	157.65	124.91	125.04
Nordic (113)	188.16	+0.3	143.35	151.59	148.45	146.31	+0.6	2.06	187.69	142.77	149.49	147.93	145.39	223.29	172.38	168.97
Pacific Basin (656)	139.02	−1.1	105.91	112.00	109.68	113.04	+0.0	1.11	140.58	106.94	111.97	110.80	113.07	192.76	107.82	182.96
Euro−Pacific (1621)	139.68	−0.2	106.42	112.53	110.20	111.94	+0.5	2.42	139.84	106.45	111.46	110.29	111.36	174.18	116.09	159.87
North America (653)	125.65	−0.7	95.71	101.22	99.13	124.46	−0.7	3.69	126.50	96.23	100.76	99.72	125.55	148.43	119.28	140.04
Europe Ex. UK (665)	123.60	+1.4	94.17	99.60	97.53	98.05	+1.5	3.43	121.91	92.74	97.12	96.11	96.57	145.62	109.94	118.69
Pacific Ex. Japan (202)	123.14	+1.5	93.82	99.22	97.16	109.36	+1.9	5.37	121.28	92.25	96.61	95.59	107.38	146.72	117.06	131.06
World Ex. US (1814)	139.58	−0.2	106.34	112.46	110.13	112.34	+0.5	2.47	139.80	106.34	111.35	110.19	111.76	173.77	117.12	158.44
World Ex. UK (2047)	130.67	−0.5	99.55	105.28	103.10	115.72	+0.0	2.61	131.33	99.90	104.61	103.52	115.79	162.00	115.37	152.28
World Ex. So. Af. (2287)	133.59	−0.4	101.77	107.63	105.40	116.61	+0.1	2.92	134.06	101.98	106.79	105.67	116.49	161.84	118.04	151.24
World Ex. Japan (1893)	131.67	+0.2	100.39	106.09	103.90	118.48	+0.3	4.14	131.42	99.97	104.66	103.55	118.16	151.59	124.31	134.24
The World Index (2347)	133.75	−0.3	101.90	107.76	105.53	116.72	+0.1	2.93	134.21	102.09	106.90	105.79	116.59	162.05	118.33	151.29

NOTICE OF DISSOLUTION AND NOTICE TO CREDITORS

TO WHOM IT MAY CONCERN,

NOTICE IS HEREBY GIVEN that Coleco U.K., Inc., a Connecticut corporation, by virtue of resolutions adopted by the directors and shareholders of the corporation, agreed to dissolve and that a certificate to that effect was filed in the office of the Secretary of State of Connecticut on October 5, 1990.

All creditors shall present their claims to Coleco U.K., Inc., Attention: the President, at the following address: c/o Ranger Industries, Inc. Reorganization Trust, Suite 1601, 919 Third Avenue, New York, New York 10022.

All creditors shall present claims prior to February 11, 1991. As provided by Section 33-379(f) of the Connecticut General Statutes, claims not presented as herein provide will be barred.

Anthony R. Celascibetta

Secretary

■ German giant chases higher grade products: see page 6.

FINANCIAL TIMES SURVEY

ALUMINIUM

■ Heavyweight producer with a global punch: see page 6.

Wednesday, October 24, 1990

Prospects for the world's aluminium industry have never been better as new applications and markets are now appearing, along with the growing importance of the metal's cost-effective recyclability, says **Kenneth Gooding**.

Best years are ahead for 'green' metal

RICHARD SCHULTZ speaks for most people in the aluminium business when he says: "This industry has the best years ahead of it. I had some doubts in the 1980s when it seemed we would be plagued by over-capacity for ever, but they have been dispelled."

His boss, Paul O'Neill, chairman of the Aluminium Company of America (Alcoa), the industry's biggest company, takes an equally enthusiastic stance: "The aluminium industry will have a great surge of activity in the coming 25 years because of the metal's recyclability and the growing importance of recyclability. Aluminium will completely overwhelm some other materials."

Alcoa – and the rest of the industry – is now convinced that the car makers will in the immediate future provide an enormous surge in demand for aluminium – similar to the impetus the industry received in the 1980s when beer and soft drink makers started to package their products in aluminium cans.

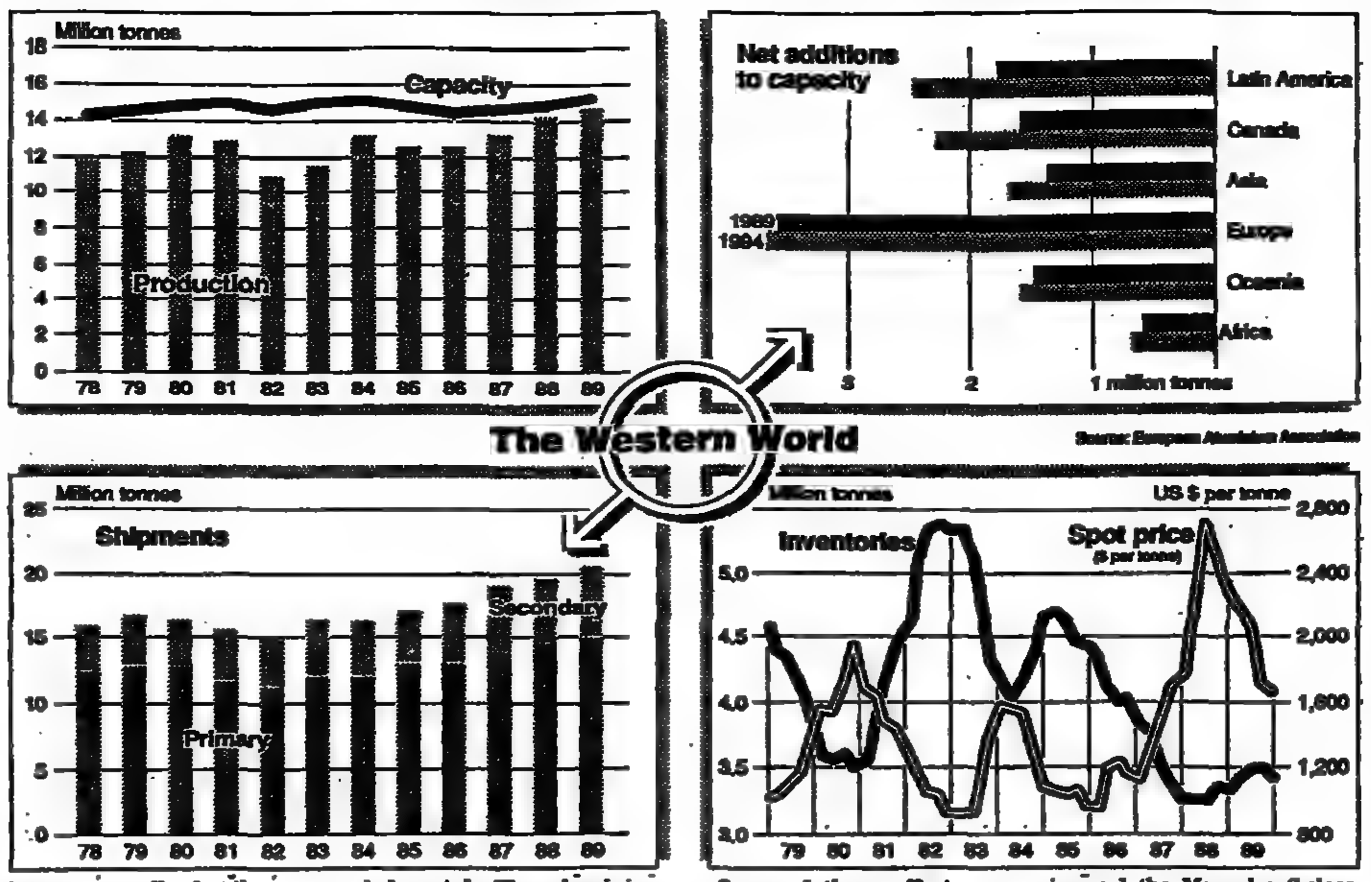
In the medium term, the opening up of eastern European markets will provide another boost in aluminium usage. The industry expects to benefit from construction customers as the east gets round to refurbishing its crumbling infrastructure and from demand for basic packaging to help get food from the fields to the kitchen in reasonable condition.

On the automotive front, the aluminium industry has much to gain as the car makers attempt to reduce further the weight of cars while at the same time they have to head down the road towards the recyclable car.

Consider these examples among the many which could be quoted: in the past few months the Japanese Ministry of International Trade and Industry has urged Japanese car makers to lower the weight of their vehicles by 40 per cent by the year 2,000.

Meanwhile, BMW, the German car producer, has said *that by 1993 it will establish* a facility capable of disassembling 250,000 cars a year so that virtually 100 per cent of each vehicle can be recycled.

Some analysts, after reviewing plans by Japanese and other automotive groups, are forecasting that the use of aluminium in the average US-



jump to 600 lbs by the year 2000.

The car makers have to get more weight out of their vehicles if they are to meet increasingly stringent and mandatory fuel economy regulations in the US. But they are turning away from plastic as a lightweight solution because plastic is more difficult to recycle than aluminium.

Aluminium, because it is a relatively expensive material which does not become degraded over time, is worth recovering and turning back into new metal. There is an important added environmental bonus – the energy required to recycle the metal is *only one twentieth of that* needed to produce primary (new) aluminium.

Already there are several aluminium products which lend themselves to "closed loop" recycling programmes, beverage cans and automotive castings among them. More than 75 per cent of the aluminium recycled metal. The aluminium industry is certain it will benefit as more and more new products are *designed* with recyclability in mind.

The first oil supply crises at the end of the 1970s provided an initial big boost for aluminium in cars. This was a "quick fix" solution which saw aluminium substituted for other materials.

New components

This substitution process has now moved to more complex components – for example, VAW, West Germany's biggest aluminium group, is working with the Japanese on complete car dashboards made of the metal.

But back in the early 1980s the aluminium and car industries began working on longer-term projects involving vehicles which would be made almost entirely from aluminium; "space frames" of the metal on which panels of aluminium, steel or plastic could

Some of these efforts are now nearing a successful conclusion. Honda of Japan launched its NSX sports car in the US in August, a vehicle the company says is "the most revolutionary model Honda has ever produced". Every component of the two-seat, mid-engined car is constructed of aluminium to provide a 40 per cent weight savings over an equivalent steel body.

Honda, already well-versed in the use of aluminium because all of its engines are made of the metal, claims the technology used to assemble the NSX is its own. But it certainly received a great deal of technical assistance from *Alcan of Canada, the group* whose ASVT (aluminium structured vehicle technology) is used to produce Jaguar's XJ220, with its all-aluminium body.

Alcoa, meanwhile, has been working with Audi, the up-market part of the Volkswagen group, on an all-aluminium ries and the Mercedes S-class cars, due to be launched in 1993.

In September, Alcoa appointed Mr Schultz, the enthusiast quoted at the beginning of this article, as director of its worldwide automotive products and systems, a newly-created position in the company. His job is to provide one voice for Alcoa in its dealings with the world's automotive industry.

The ability of the aluminium industry not only to respond to the demands of its automotive customers but in some respects get ahead in the game springs partly from its integrated structure. Much of the world's *production is effectively con*centrated within six companies – Alcoa, Alcan, Reynolds Metals and Kaiser, all of the US, Pechiney, the state-owned French group, and Alusuisse of Switzerland – each of them integrated through from bauxite mine to metal fabrication.

In the 1960s these companies controlled as much as 90 per cent of the western world's primary aluminium output but over the last 30 years their grip has been loosened as new players have forced their way in. In some cases, such as Brazil and Australia, this came about because of forward integration by countries with a strong raw materials base. Elsewhere the availability of low cost electrical power provided the key – a modern aluminium smelter will consume as much power as a town with a million inhabitants. The industry was forced to turn to low-cost hydro-electric power for much of its new capacity and now has the environmental bonus of being able to claim this type of power is from renewable resources and is generated in a non-polluting way.

Meanwhile, some of the major aluminium producers have moved further downstream to the fabrication of end-products. Pechiney and Reynolds, for example, have become significant suppliers of packaging worldwide.

Packaging trends

Packaging, particularly in the shape of the aluminium beverage can, has provided the most impressive growth in recent years. From the US, where the market is most developed, the aluminium can and the aluminium foil tray – "the six-pack of beer and the tv dinner" – are gradually spreading their influence round the globe.

US beverage can shipments increased by 6.5 per cent last year to an estimated 83bn and 60 per cent the metal was recycled. *Learning from the US* experience, the major aluminium companies expect to stimulate the growth of aluminium cans in other parts of the world by emphasising the metal's recyclability.

Mr Bill Bourke, chairman of Reynolds, says: "Aluminium recycling efforts have begun in Europe, Asia and Latin America that promise to become as pervasive as those in the United States. Recycling is the best answer to the problems of municipal solid waste and diminishing landfill space."

Even events in the Gulf cast a smaller cloud over alumin-

Continued on page 3

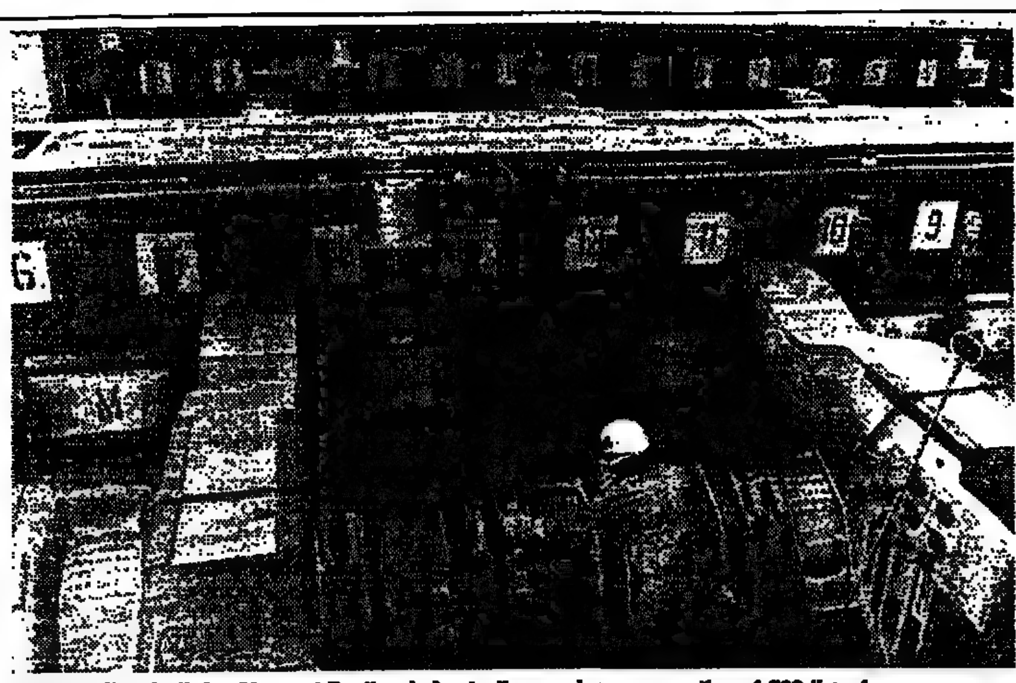
IN THIS SURVEY

Aluminium ingots ready for export from Australia.

Paul O'Neill, chairman of Alcoa: see profile, page 6.

☐ Details of related FT surveys: see page 5.

☐ Editorial production by Michael Wiltshire.



This smelter, built by Alcoa at Portland, Australia, produces more than 4,500 lbs of metal a day. Its capacity is 150,000 metric tons a year.

PRODUCTION

Venezuela shows high promise

THE 18 per cent, three-year rise in world aluminium production that lifted the total to a record 14.377m tonnes last year was principally due to a 30 per cent rise in the US as buoyant market conditions encouraged the restarting of mothballed plants.

But with that process more or less complete, the underlying trend of a switch of production away from the industrialised countries to the major developing countries is expected to become more apparent over the next few years.

In a report published in September, Billiton-Enthoven Metals suggested that non-communist world primary smelting capacity would rise to 15.225m tonnes this year and to 16.234m tonnes in 1992.

In 1995, it would "probably" reach 18.268m tonnes and "possibly" 20.295m tonnes, the report said. An earlier assessment (published in April) by Shearson Lehman Brothers put capacity somewhat lower in 1990 (15.085m tonnes) and 1992 (16m tonnes), and in the middle of the Billiton range (19.143m) in 1995.

Billiton's "probable" rise of 3.043m tonnes between this year and 1995 included a 630,000-tonne advance for North America, with US output projected to fall by 218,000 tonnes and Canada's to rise by 848,000 tonnes.

The report also noted that the continued flat-out utilisation of US capacity would be increasingly likely to result in breakdowns.

In Canada, the start-ups at Alouette's Sept Isles plant and Alumax's Deschamault were expected to be contributing 315,000 tonnes of capacity between them in 1992 and 645,000 tonnes by 1995.

Expansions at Albecour's Becancour smelter and Reynolds' Baie Cameau were expected to add 120,000 tonnes and 128,000 tonnes respectively by 1992.

Potentially the biggest expansion, however, was seen in Venezuela, where a long list of projects and a couple of planned expansions added up to a 1.338m-tonne increase in capacity by 1995 from this year's 600,000 tonnes.

But Billiton designates that rise only as "possible", setting a much more conservative "probable" figure for the capacity increase of 538,000 tonnes. It explained that the "possibles" included projects likely to be delayed, "if not scuppered", by lack of financial backing and "partnership squabbles".

Nevertheless, Billiton also quoted an "eventual possible" capacity figure for Venezuela of 3.188m tonnes a year – "this may seem fanciful," it admitted, "but the fact remains that it is difficult to imagine a country more suited to producing aluminium than Venezuela."

It listed ample indigenous supplies of bauxite and hydro-electric power concentrated in a compact area, plentiful, inexpensive labour and good infrastructure. This was a package of benefits matched nowhere else, though the report added that the infrastructure might be strained to cope with output at the most optimistic projected levels.

Shearson had earlier noted, moreover: "Debt problems, food riots and corruption charges have made Western investors nervous about participating in greenfield projects (in Venezuela), despite the obvious cost benefits of investing in the country."

Billiton said Latin American output was also likely to be boosted by the expansion of the Albras and Alumar smelters in Brazil.

Asian output is also set to rise substantially, chiefly as a result of developments in the Gulf. Although the present crisis is likely to mean delays, at least, for greenfield projects, planned expansions at existing plants in Bahrain, Dubai and Iran are reported to be going ahead.

The Billiton report suggested that by 1995 those three smelters' capacity would "probably" be up from 445,000 tonnes a year to 765,000 tonnes and that another three would be in operation in Iraq, Qatar and Saudi Arabia, with an aggregate capacity of 583,000 tonnes a year.

Although the trade embargo was delaying development of the Iraq smelter at Nassiriyah, Billiton remained "optimistic" all the new smelters would "see the light of day by 1995." But it thought capacity at Nassiriyah was likely to be closer to 150,000 tonnes a year than the planned 215,000 tonnes.

Shearson was less optimistic in its April reports about the prospects for the Gulf. Pointing out that as some projects go ahead others will become less attractive it said: "We do not expect to see six smelters in the Middle East by 1985."

Australian production was likely to stagnate over the next few years, Billiton said, with a rise of only 10,000 tonnes to 1.285m tonnes by 1992. But with a new plant at Kemerton in Western Australia "a strong possibility" and further expansions possible at the Gladstone, Tomago and Portland smelters (opened in 1982, 1983 and 1987 respectively) production in 1995 was likely to reach 1.51m tonnes and "possibly" 2.025m tonnes.

No increase was envisaged for African production over the next few years, but Billiton noted that a smelter was planned in Algeria with probable capacity of 220,000 tonnes a year and a possible level of 330,000 tonnes.

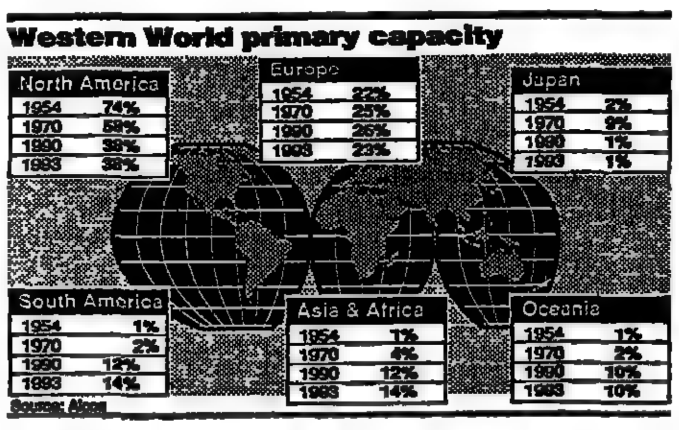
It did not include in its projections a 180,000-tonnes-a-year plant "mooted" in Nigeria. But later reports suggest the country is close to announcing a scheme for a new smelter and associated power station with a rated annual capacity of 200,000 tonnes.

If the project goes ahead as originally conceived, Reynolds Metals of the US, which has already supplied technical know-how, will manage the smelter and take all the metal at London Metal Exchange prices, delivered in Rotterdam. Reynolds will either use the material itself or sell it on to other consumers. In return, Reynolds will pay the consortium of banks that is to put up some of the capital for the project. The Nigerian Government intends to put a substantial sum into the venture.

On the minus side, the Billiton report listed eight plant or potline closures scheduled to take place between 1991 and 1993 in Canada, the US, Austria, France, Germany and Italy. Together these amounted to 513,000 tonnes of annual capacity.

The European cuts may be compensated, however, by a 200,000-tonnes-a-year project in Iceland. Billiton reported in its October metals review that a memorandum of understanding had been signed by the Icelandic government and the international consortium comprised of Alumax, Granges and Hoogovens formed for the planned construction of the Atlantal smelter, which was scheduled to come on stream in late 1994 or early 1995.

Richard Mooney



Production changes

World primary aluminium production in 1989 in thousands of metric tons, showing average annual compound growth rates in brackets, for the period 1979-1989:

Canada	1,555 (6.1%)
US	4,030 (−1.2%)
EC countries	2,015 (−0.7%)
UK	297 (−1.9%)
France	335 (−1.6%)
W.Germany	742 (0%)
European Free Trade Association	1,209 (1.9%)
Norway	859 (2.5%)
Yugoslavia	293 (5.7%)
Spain	352 (3.1%)
Brazil	888 (14.1%)
Argentina	162 (3.2%)
Venezuela	546 (10.3%)
Australia	1,241 (16.5%)
New Zealand	260 (5.4%)
Untd. Arab Emirates	168 (n/a)
S.Africa	168 (6.9%)
India	422 (7.3%)
Indonesia	199 (n/a)
Japan	35 (−28.6%)
China	700 (6.9%)

World Bureau of Metal Statistics.

World projections on metal consumption are revised

The Gulf crisis dents growth prospects

EARLY this year most metals analysts had expected 1990 to see the end of the downward swing in the world economic cycle that had slowed growth in aluminium consumption after the surges of 1987 and 1988.

In April, Shearson Lehman Brothers, the London broker, projected a demand rise of 0.9 per cent in 1990, up from 0.5 per cent in 1989, and a further strengthening next year to 3.3 per cent, still well below the 6.8 per cent of 1987 and the 5.6 per cent of 1988, but enough to justify predictions of a more buoyant market.

But that was before the Gulf crisis had raised oil prices sharply and intensified fears of recession. Mr Neil Buxton, joint author of the Shearson report, now sees things rather differently. This year's growth projection still stands, but for 1991 he now expects a figure no more than half the 3.3 per cent forecast in April.

A month after the invasion of Kuwait, however, Billiton-Enthoven Metals was still predicting a 3.6 per cent growth for aluminium consumption in 1991, up from 0.5 per cent estimated for this year. For 1992 it thought the rate was likely to slow to 3 per cent. These figures were based on the assumption that economic managers could still engineer a "soft landing" for the world economy, rather than a dive into recession.

Billiton forecast 1992 non-communist world consumption of primary aluminium at 15.7m tonnes, up from 15.25m tonnes in 1991, 14.725m tonnes this year and 14.655m tonnes in 1989, implying a rise over the three year period of 1.045m tonnes. The biggest contributor to that rise was expected to be western Europe, up 418,000 tonnes to 5.125m, followed by Japan, up 321,000 tonnes to 2.525m. Falls were seen for North (63,000 tonnes to 4.7m), and Australasia, (5,000 tonnes to 350,000).

Oil price rises tend to put a greater premium on aluminium's weight-saving properties, says RICHARD MOONEY

The remaining 374,000 tonnes of the projected rise was attributed to "others", which were expected to consume 3m tonnes of primary metal in 1992. This underlined the growing importance of what Billiton termed the "non-mature economies", on which the aluminium market has increasingly relied for growth over the past decade. "Indeed," Billiton said, "it was only in 1988 that consumption in developed economies surpassed its 1979 level, when it last peaked."

"As economies mature, the services and high technology industries become more important and constitute a larger share of GNP," the report explained.

Analysing individual consuming sectors the Billiton report saw scope for further growth in transport, packaging and electrical engineering, but not for construction, the second biggest aluminium user after transport, unless there was a significant decline in interest rates. That was a similar picture to that painted five months earlier in the Shearson report. The vehicle industry is the dominant element in the transport sector but aerospace, railways and boat-building are also important.

The increased risk of recession is clearly not good news for car manufacturers, and neither is the rise in oil prices. The average aluminium content of German-built cars, which Billiton took as a "yardstick" for European manufacturers, has risen from 80-90 lb 10 years ago to an estimated 110-120 lb to-day. And it believed the figure for Japanese cars was still higher at 120-130 lb, up from 90-100 lb in 1980. "In our view, the intensity of aluminium use in automobiles will continue to climb in all markets," said the report.

For aerospace the position is reversed. The level of aluminium use in aircraft is declining under the force of competition from materials such as titanium and high-strength steels; according to Billiton from 80 per cent in the 1960s to just 60 per cent today.

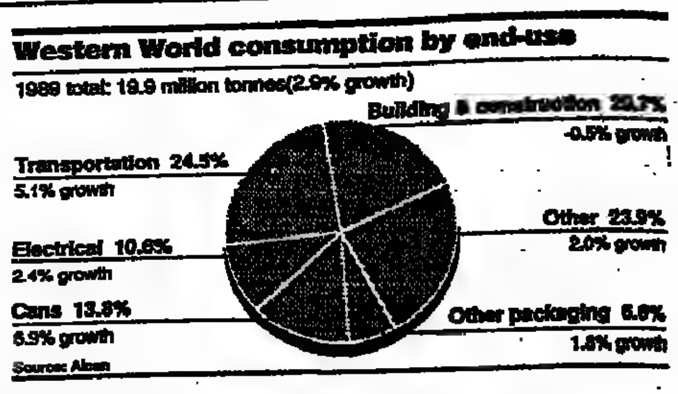
But the volume of production was predicted to rise from 300-400 units a year in the 1980s to 800 a year in the first half of the 1990s. With extensive maintenance and "re-skinning" of existing aircraft making a further contribution Billiton said the outlook was for "steadily rising demand from this sub-sector of the transport industry."

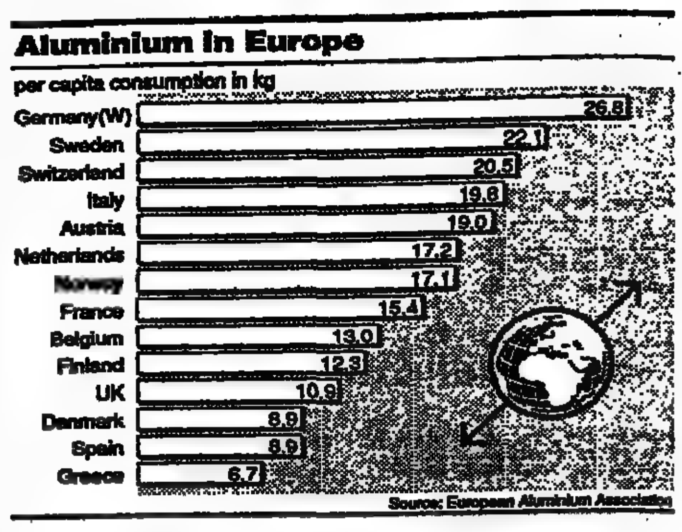
Overall, the transport sector's mixed near-term outlook for aluminium consumption added up to "a net increase, albeit a fairly small one," provided there was not a marked slump in automobile production.

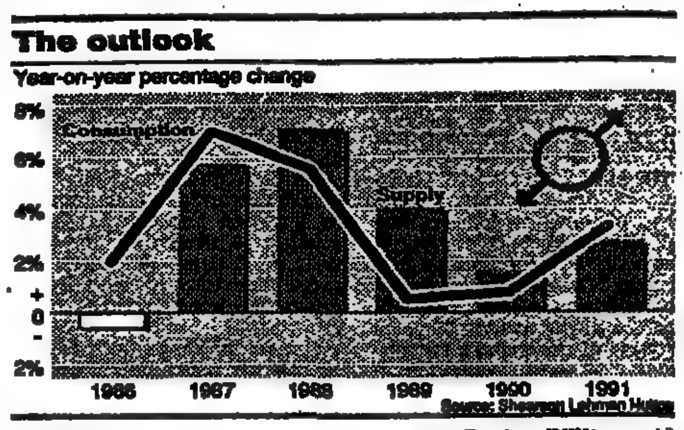
In the construction sector, aluminium is expected to lose out on both fronts, with high interest rates slowing growth in building starts and competition intensifying from a wide range of alternative materials. Although trends varied from country to country: "The near-term outlook for aluminium consumption from this sector worldwide is not in our view particularly bright," the report said.

Packaging, the third largest consumption sector for aluminium, has been the fastest-growing over the past decade. The report said it still had the greatest potential for further expansion and pointed to "phenomenal" growth in the US beverage can sector and inroads into food can production, but only limited impact in western Europe.

Shearson also expected packaging to continue as a major growth market, although it warned that further "down-gauging" would constrain the trend. Since 1977 the average thickness of aluminium sheet used for can making had fallen from 0.42 mm to 0.30 mm, it said. Increased recycling of used cans might also hold back growth in demand from the sector for primary aluminium.







ALUMINIUM 3

Growing public awareness of environmental issues boosts worldwide reclamation effort

Recycling projects gain momentum

Mountains of valuable scrap: more than two-thirds of output of the British Alcan aluminium extrusion division at Banbury, above, start as scrap aluminium.

THE VERY rich and the very poor are least likely to recycle their used aluminium beverage cans in the US. The person who will drive further and take more cans to the recycling centre is a middle-class type, living in the suburbs.

This can be said with some certainty, thanks to the efforts of Reynolds Metals, second-largest of the US aluminium groups, which last year paid out $182m for 9.7bn used aluminium beverage cans.

Of course, Reynolds is not alone. In all, 49.4bn used aluminium cans were collected in the US last year and the collectors were paid $900m.

Reynolds claims to have been first in the field. It says in its promotional material that "on March 21, 1968, we discovered the richest aluminium mine in the world and it is a self-replenishing mine." In other words, in 1968 Reynolds started out in the previously-untapped market for recycled beverage cans.

In 1990, about 90bn beverage cans will be made and sold in

Cans made from used aluminium containers cost only about three-quarters as much as those produced from new can sheet, says KENNETH GOODING

the US, 96 per cent of them will be of aluminium and more than 60 per cent of those aluminium cans will be recycled.

The lessons learned by the North American companies over the past 22 years are rapidly being applied as beverage can recycling spreads to other parts of the world, particularly in Japan and Europe.

Reynolds reckons it has more recycling experience than any other aluminium company. It started 35 years ago but the break-through came in 1968 in Los Angeles when, for the first time, it started to pay the public for used beverage cans (known in the industry jargon as UBCs).

So we can gain some pointers to the way aluminium can recycling will develop in Europe from Reynolds' experience. It found, for example, that paying the public contributed greatly to the expansion of this business which has grown from 1m lbs of aluminium a year in the late 1960s to 1m lbs a day.

Previously, Reynolds attempted to encourage recycling, without great success, by making contributions to charities.

Mr Richard Bolling, vice president of the company's recycling and reclamation division, says that customer convenience is also a key to successful can recycling. For this reason Reynolds not only operates a network of 725 buying locations in heavily-populated areas in the US; it also sends out mobile units to such places as supermarket car parks at *predetermined times and days* of the week.

(There are about 10,000 aluminium can recycling centres in the US and this part of the business is estimated to have created 30,000 jobs in the 1980s).

For the past five years Reynolds has also had "reverse vending machines" – machines which take in used cans and give out cash in return – which are "open" for business 24 hours a day. However, these are only viable if installed in clusters of 30 to 40 in large cities.

Reynolds heavily promotes recycling, using 13 advertising agencies around the country, rather than having one, national campaign, because it believes that each area has different characteristics.

The group knows a great deal about the people who bring in UBCs because they have to provide names and addresses when collecting their cash.

The "zip" or post codes can be analysed to give a very clear indication of the type of people, incomes and other important data, apart from the obvious details about where the customers live. This information can be helpful when new collection points are being established and, when Reynolds is buying advertising space on radio and television, it knows what programmes are likely to appeal to recyclers.

Aluminium can recycling activities in Europe have yet to achieve such sophistication but it probably won't take long to get there.

Starting from an initiative by five aluminium can sheet producers (Alcan, Alcoa and Reynolds of the US, Pechiney of France, and VAW of Germany) which set up the Aluminium Can Recycling Association (Acra), a strong commitment to recycling aluminium cans before they reach the waste stream is growing.

Supporters and partners in the recycling programme include Alusuisse in Switzerland, Austria Metal, Alumix in Italy, Elval in Greece and Hydro Aluminium in Norway, can makers and fillers whose contributions differ by country, and a number of retail trade chains and companies such as Shell in Austria and Switzerland and supermarkets Tesco, Safeway, Stewarts and Crazy Prices in the UK, Quinnsworth in Ireland and Barclays Bank and GLS, the school equipment supplier, in the UK.

Recycling programmes are operating in Greece, Italy, Switzerland, Austria, Ireland, the UK and Sweden. It is expected Norway will soon be added to the list.

In the UK, the industry reckons that 500 tonnes of used aluminium cans were recycled in 1988, that this jumped to 1,200 tonnes last year and that there another substantial increase will happen this year.

Like Reynolds in the US, *Acra became convinced that a* proper collection infrastructure was essential for success and began its "public awareness" campaign with a network of 250 recycling centres, most of them members of the British Secondary Metals Association, in June last year. Today there are more than 1,100 convenient locations for the UK public to recycle aluminium cans.

*Alcoa has two can process*ing centres, at Swansea and Cardiff. Alcan has set up collection facilities in five towns. Its collection centre at Warrington last year bought 200 tonnes of used cans but in the first eight months this year the total was 600 tonnes. (There are 56,000 aluminium cans in a tonne and the industry is paying 1p each for them. This suggests that the 60,000 tonnes of aluminium cans lost in the waste disposal system last year could have netted recyclers about £30m.)

Alcan's commitment to recycling extends to the investment of £28m in a new, dedicated remelt facility next to its existing plant in Warrington. This will provide the capacity to produce 50,000 tonnes a year of aluminium from old cans.

There is a very good commercial reason for all this recycling effort by the aluminium industry. To start with, aluminium is such an expensive metal to produce that in many cases it would not be competitive unless there was extensive recycling.

Fortunately, the metal preserves the huge amount of energy it takes to produce aluminium so that recycling beverage cans, for example, uses only about 5 per cent of the energy required to produce aluminium from ore. And the capital cost of facilities to produce aluminium from recycled material is only one tenth of the cost of a new primary smelter.

Even after collection, transportation and remelting charges are included, cans made from used containers cost only about three-quarters as much as those produced from new can sheet.

Last year the industry produced about 4.5m tonnes of new aluminium from scrap. Already as much as 70 per cent of the metal used in electrical engineering, building and transport is re-used. That is why the industry is concentrating on the can sector – it has the greatest potential for recycling growth as well as being one of the fastest-growing areas of aluminium consumption.

But Reynolds has found that, once established, collection centres can be used to collect more than just cans. Its network buys items such as siding, gutters, storm door and window frames and lawn furniture tubing, as well as household products such as foil, frozen food trays. It collects aluminium castings including motor parts, pots and pans, lawn mower housing and barbecue grills.

It all adds up: last year Reynolds collected 450m lbs of aluminium of all types and this accounted for nearly one third of the company's total metal production.

The commercial pressure for the aluminium industry to recycle has been ever-present. It is now getting a bonus from the growth in the public's environmental awareness. Because aluminium is such a recyclable material, products can be designed with recycling in mind.

Mr David Morton, chairman of Alcan, points out that aluminium carries an intrinsic value that is tapped each time it is recycled. He says: "The industry itself needs to take advantage of this virtue and design products in forms that are more easily recyclable.

"Looking ahead, I can see the day when the aluminium industry will in a sense be 'leasing' the aluminium in its products to its customers, rather than selling it to them. It will do this by guaranteeing a take-back at the end of the product life-cycle."

Industry now in better shape

Continued from page 1:
ium than most other industries.

While the prices of other heavily-traded metals have been falling as fears about an oil-induced recession grow, aluminium has held up. This is because two smelters in the Gulf area provide 2.4 per cent of the world's primary supplies and there have been some worries that these might be affected at a time when demand for the metal has been running ahead of production capacity.

To catch up, primary aluminium output needs to rise from the current annual level of just over 14m tonnes to about 17m tonnes by 1994, analysts suggest. About 25 per cent of new or planned increases in capacity were intended to be in the Gulf so any prolonged period of instability in the region would pose serious problems for aluminium supplies.

However, Mr Jacques Bougie, president of Alcan, suggests that a Gulf-provoked world recession (which he does *not* expect) might cut potential demand enough in the early 1990s to compensate for the delay in the construction of new smelters in the region.

For the time being, however, Alcan, the world's biggest producer of primary aluminium, expects the industry to enter 1991 with supply and demand about in balance, but with a slight increase in stocks. There should then be an increase in annual demand for primary and recycled metal to the year 2,000 averaging 3.1 per cent.

The industry certainly is in better shape to face a recession than the one which decimated it from 1982-87, a time when the Japanese virtually gave up making primary aluminium and the US closed down 20 per cent of its capacity.

Three years of relatively high profits have enabled the major companies to rebuild balance sheets while investing heavily in modern capacity to contain costs – since the mid-1980s 25 per cent of the industry's capacity has been replaced in this way.

But if North America is tipped into recession by rising energy costs, the reverberations would be felt world wide and result in a sharp fall in demand for aluminium – "smelters would be slow to respond by cutting back production.

Inventories would accumulate and prices would be driven sharply lower and remain depressed for a prolonged period," suggests Mr Angus MacMillan, analyst at Billiton-Enthoven Metals.

Aluminium prices are extremely visible because the metal is traded on the London Metal Exchange. Many contracts are based on LME prices, which tend to be volatile even at the best of times. Some producers wish this was not so. Mr Bourke at Reynolds is one of them – "the volatility of the aluminium price on the LME scares the hell out of the auto industry," he complains.

Somehow, in order to achieve their ambition of ousting more plastics and steel from the world's cars, the aluminium companies will have to find ways of giving some long-term price guarantees to their automotive clients.

Working out such schemes might not be as taxing as developing all-aluminium cars, but it won't be easy.

INTERNATIONAL TRADE

About-turn by Japan

JAPAN has been the dominant player in world aluminium trade over the past ten years, and looks set to continue in that role.

That country's about-turn has been quite astonishing. Ten years ago it was the second largest producer of aluminium in the non-Communist world, with output at just over 1m tonnes a year. Last year, production was 35,000 tonnes from its only remaining smelter – the only one to have hydro-electric power.

Japanese imports now account for 30 per cent of all trade in primary aluminium, according to Billiton-Enthoven Metals, "and Japanese procurement behaviour has had a tremendous influence on the world aluminium market."

The oil shock of the early 1970s convinced the Japanese that they should no longer be involved in energy-intensive aluminium production.

"They were using scarce resources doing something that could be better done elsewhere. I think you've got to admire them for their decision to get out of aluminium production," says Mr Angus MacMillan, research manager with Billiton-Enthoven Metals.

Nevertheless, Japan is the second biggest consumer of aluminium (after the US), and it remains by far the biggest importer.

Between 1979 and 1989 Japanese consumption of primary aluminium rose from 1.8m tonnes to 2.16m tonnes. Over the same period, imports rose from just over 700,000 tonnes to 2.3m tonnes. The next biggest importers are Germany with 940,000 tonnes and the US at 938,000 tonnes (1989 figures).

Rather than leave themselves at the mercy of others, the Japanese have invested abroad in areas of cheap labour or cheap energy in order to safeguard their supplies.

Japan, which now imports aluminium from more than 50 countries, has invested in smelters in New Zealand, Canada, Venezuela, Australia, Indonesia, Brazil and the US in the past 20 years.

The Japanese factor has been the principal determinant of the changing pattern of the growing amount of world trade. According to Billiton-Enthoven Metals, non-Communist world imports of aluminium constituted about a third of non-Communist world output in 1978, "whereas latest figures available from the World Bureau of Metal Statistics indicate that this figure has now risen to in excess of 50 per cent of non-Communist world output."

Canada, with its bountiful supply of hydro-electric power, remains the biggest of the exporting countries, with 1.16m

Report by DAVID BLACKWELL

tonnes in 1989. Norway, also well supplied with hydro-electric power, has been ousted from second place by Australia, which exported 895,000 tonnes last year compared with Norway's 770,000 tonnes. Australia's cheap fuel is coal, which has enabled it to lift exports from a mere 42,500 tonnes in 1980.

The US, the third biggest importer in 1989, remains the biggest single producer of aluminium by far, but its imports have risen and fallen sharply, reflecting an inability to cater for increases in domestic demand. In 1986, for example it imported 1.34m tonnes, only 20,000 tonnes less than Japan.

Western European countries have found themselves in a similar position, according to Billiton-Enthoven Metals, as imports have risen as a result of a lack of domestic capacity to cater for demand.

European smelters have been running at 99.5 per cent to 100 per cent capacity this year, and the European Aluminium Association expects production to remain the same this year as last at 3.6m tonnes. Western Europe will therefore need to import 900,000 tonnes of primary metal again this year.

Exporters in the US, Australia and the Gulf States are seeking a reduction in the EC's current tariff from 6 per cent to 4 per cent at the current round of the General Agreement on Tariffs and Trade (Gatt).

While the UK is against the duty on aluminium, other European countries are in favour of keeping it.

Mr Jochan Schirner, president of VAW, the German group, says that exporters of aluminium outside Europe are not playing fair. They are encouraged by export subsidies, subsidies on power supply and subsidies to create jobs in state-owned companies.

"So for the time being it would not be unfair if the European industry maintained the present tariff structure. The rules of fair competition do not exist in the industry."

He points out European aluminium imports are growing annually, which will benefit those countries which subsidise their industries. The Soviet Union, which in the past has dumped aluminium when in search of foreign currency, poses a new threat and has a big surplus to export.

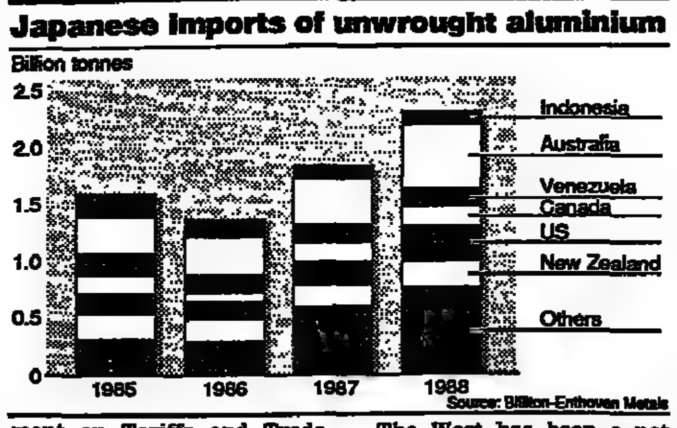
The Soviet Union has remained the principal factor in East-West trade in aluminium, exporting 186,200 tonnes in 1988, while Romania has grown in importance, exporting 116,200 tonnes in the same year, compared with 53,400 tonnes in 1984, according to Billiton-Enthoven Metals.

The West has been a net importer from the East for the last ten years, except for 1985, when the Chinese imported an exceptional 305,000 tonnes, reversing the balance. Chinese deliveries have since come down sharply, but Billiton-Enthoven expects the country to remain a net importer.

The price of aluminium on the London Metal Exchange rose sharply after Iraq's invasion of Kuwait in early August as consumers anticipated that new capacity planned for the Gulf area would be delayed or cancelled. Mr MacMillan is sceptical about the Gulf's near-term potential to become an exporter, as a lot of the metal to be produced would be destined for the Gulf market. In any case, he does not expect to see any aluminium from projected greenfield smelters until 1995, "even if we have a rapid end to the situation."

Overall, he sees the world trade in aluminium continuing to grow, along with consumption of the metal. Japan's consumption of just over 2m tonnes is less than half that of the US, he points out. Germany's is even less at 1.3m tonnes. This is still relatively low consumption in two dynamic economies, he says, and imports are set to increase over the next decade.

Japanese imports of unwrought aluminium



Source: Billiton-Enthoven Metals

Kenneth Gooding on research into new applications

Big potential in motor industry

"THE AIV (aluminium intensive vehicle) will change the way people build and design cars," suggests Pete Bridenbaugh, who heads Alcoa's research and design centre near Pittsburg. "It's a whole new way of making cars, not just substituting aluminium for other materials."

Alcoa has been working since 1981 with Audi, the up-market subsidiary of Germany's Volkswagen group, on the AIV concept.

The car, a competitor for the big BMW 7-series and Mercedes S-class models, is scheduled to be launched in 1992 and several prototypes have been on the road for some time, proving the structural soundness.

Alcoa intends to set up a facility in Europe, almost certainly in West Germany, to offer its aluminium components, sub-assemblies and even complete space frames to the automotive industry.

Alcoa says that, once that facility is in place, it will have spent US$250m on its AIV (aluminium intensive vehicle) project but that "it is a whole new way of producing cars, not just materials substitution."

The company says aluminium car structures can be between 25 per cent and 40 per cent lighter than similar ones made of steel. But the aluminium car would be much more expensive if the light metal was simply substituted for steel.

So Alcoa has come up with a car structure – a "space frame" on which panels of aluminium, steel or plastic can be hung – consisting of only about half as many individual components as a conventional steel body. Tooling costs are only one-third of those for a steel vehicle.

Alcoa is not alone. Alcan has its ASV (aluminium structured vehicle) technology, used by Jaguar in the XJ220 supercar and a prototype of the Ferrari 408. ASV allows the production of adhesive-bonded aluminium car body structures, of about half the weight of a steel structure, to be built on conventional car production lines.

Reynolds Metals has its own version of the aluminium car body and is working with a number of companies, notably Ford. So it is no wonder that the industry is particularly excited about the potential for new applications for aluminium in the motor industry.

The industry has had to make many refinements to the alloys it produces in order to win over the car makers. For example, extrusions must have the strength of mild steel so that they absorb energy in a crash and crush in a controlled, predictable way.

Castings must have the same characteristics so that they are a far cry from the traditional aluminium casting which cracks into many pieces if hit too hard or dropped too far.

The industry also had to develop high-speed production technology to meet the demands of the car industry. So far, however, the limit seems to be about 75,000 structures a year – which restricts the use to special vehicles.

Tooling costs also rise to steel levels at higher rates of output. But the producers argue that aluminium structures allow car bodies to be replaced much more often than when expensive steel tooling has to be amortised.

Aluminium producers are also working hard to cut the costs of composite materials (metal matrix composites made of aluminium and ceramic materials) previously aimed at the aerospace industry which could afford the high prices. That would make composites attractive to the price-concious car manufacturers.

Jeff Edington, Alcan's vice

Aluminium car structures may be up to 40 per cent lighter than similar ones made of steel

president, research and technology, says that if conventional brake discs were replaced by aluminium composite materials it would save about 40 lbs on the weight of the average North American car. With "knock-on" effects, the total saving would be at least 90 lbs.

Alcan started producing an aluminium composite material – which it calls Duralcan – on an industrial scale at a new C$36m plant in Jonquière, Quebec, in June this year. Like other composites of its type, Duralcan combines the lightness of aluminium with the strength, stiffness and wear resistance of the ceramic reinforcement. Early applications have been in bicycle frames, camera gimbals, brake rotors for racing cars and fire hose components.

Among the most expensive products offered by the industry is aluminium-lithium alloy which is being widely tested by the aerospace industry.

The future of this alloys rests heavily on the next Airbus. The Airbus partners have been carrying out full-scale fatigue tests but it will be another two years or so before it is decided whether and where aluminium-lithium will be used.

But more than a dozen applications are being considered, including the forward bulkhead, door panels, wing tips and panels and window frames – all applications where other aluminium alloys are currently used.

There is no guarantee that Airbus will use any of the material. But the industry hopes Airbus will trigger substantial consumption of aluminium-lithium because it would require not only a large quantity for each aircraft but also a large number of aircraft are likely to be built.

It might seem a long way in technology from the Airbus to the humble beverage can but Alcoa for one would argue this is not the case. "The beverage can is a very sophisticated pressure vessel," insists Mr Bridenbaugh. Alcoa designed its latest version with the help of a Kray supercomputer.

As beverage cans account for about 30 per cent of the aluminium consumed in the US it has been very important for the industry to get as much weight out of each can as possible.

Alcoa has developed what it calls "the 25 lb can" – its way of saying that 1,000 cans weigh only 25 lbs. Now Alcoa and some of its rivals are developing "the 22 lb can." But this will only be possible by redesigning the container and by using new aluminium alloys and production processes.

Aluminium companies are constantly searching for a new product which would give them as big a new market as they opened up with the introduction of the aluminium beverage can. Alcan believes it might have just that product in Micromatch on which it has been working with an outside inventor.

Micromatch enables a variety of different foods to be properly cooked together in a microwave oven and involves the use of patches of aluminium on the pack to direct the energy to the right places. As 85 per cent of US homes now have microwave ovens, the potential is great.

Norway benefits from cheaper power

NORWAY has overtaken West Germany as the dominant producer of primary aluminium in western Europe as part of the shift of world capacity to regions with cheap power.

While closure of more German capacity seems likely, Norway's – and Europe's – foremost producer, Hydro Aluminium, recently unveiled a Kr10bn (US$1.5bn), six-year expansion scheme which will boost its annual capacity by 44 per cent from 635,000 tonnes to about 915,000 tonnes – "we have a strong belief in the future of aluminium," says Mr Dag Flaa, president of Hydro Aluminium, by way of explanation. "The 1980s was a difficult decade for the industry because there was profound over-capacity. Now the situation is much better balanced and there will be significant growth in aluminium consumption in the 1990s."

While Hydro might seem to be putting a great many eggs into its Norwegian basket with the expansion project, Mr Flaa points out that the company has spent heavily on infrastructure improvements in the recent past and, by taking advantage of the existing infrastructure, the capital investment requirements will be only about 70 per cent of those for smelters on greenfield sites.

Also Hydro enjoys some of the lowest power costs in the world. Analysts suggests its parent company, Norsk Hydro, is generating hydro-electric power at a cost of 16.5 to 17 mills per kilowatt hour (one mill equals 0.1 of a US cent) compared with Pechiney's costs in France of about 20 mill/kWh.

Nevertheless, Hydro's labour costs are relatively high and it has to buy in much of the alumina it needs as raw material so that, in 1988, its estimated

Hydro Aluminium enjoys some of the lowest power costs in the world, says KENNETH GOODING

total production costs were about $1,250-$1,300 a tonne against $1,000 for Pechiney and $1,300 at Alusuisse.

The expansion programme will go some way to closing the gap which Hydro already has been tackling through a comprehensive cost-reduction programme.

Old and costly Soderberg units will be replaced (these were unlikely to have been environmentally acceptable for much longer in any case) at the Ardal and Sunndalsora smelters which are to be the principal recipients of the new investment cash.

The plans call for new facilities at Ardal with an annual production capacity of 120,000 tonnes and at Sunndalsora with a capacity of 200,000 tonnes.

However, these plans are based on the assumption that the increased demand for electric power can be covered by a new gas fired power plant which will use associated gas from oil fields now under development at the Haltenbanken area off the mid-Norwegian coast.

Mr Flaa expects negotiations about the new power plant to be completed this year. Hydro's situation is further complicated because concessions for parts of the existing power supply to the two smelters expire before 2007 so the expansion programme is also conditional on new contracts giving power at "internationally acceptable" prices into the next century. Talks about this are only just begining.

Earlier this year plans for a capacity expansion of the Soral smelter, also in Norway but jointly owned with Alusuisse, from 65,000 to 100,000 tonnes were approved.

Mr Flaa says Hydro will consider similar investments at its other two smelters, at Karmoy (capacity 220,000 tonnes) and Hoyanger (67,000 tonnes) but any modernisation or expansion will have to wait until after the turn of the century.

He indicates that, once the current smelter expansion programme is over, Hydro will look at the potential for capacity outside Norway. In any event, he intends that by the year 2000 Hydro "will be much more globalised than it is today."

Hydro Aluminium was formed in 1986 via the merger of the aluminium activities of Norsk Hydro, Norway's big natural resources group, with Ardal and Sunndal Verk (ASV), another Norwegian aluminium company. In 1988, Norsk Hydro bought out the Norwegian Government's 30 per cent shareholding and Hydro Aluminium became a wholly-owned subsidiary.

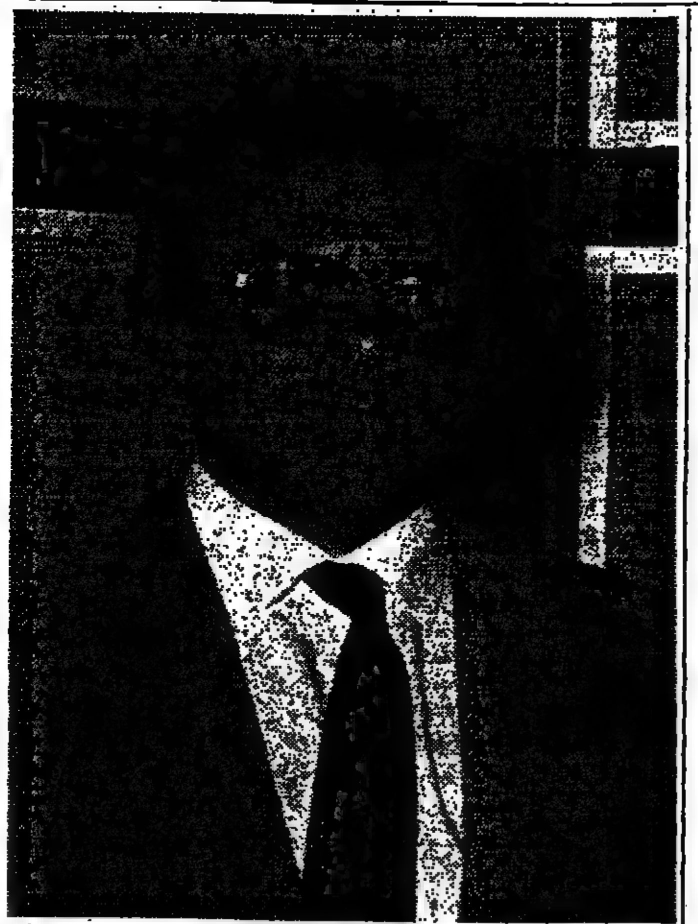
Mr Flaa points out that during the past four years Hydro Aluminium's sales have grown by 50 per cent – "remarkable growth," he suggests – and insists "that pattern will continue."

Sales in 1989 were more than Kr16bn ($2.4bn) and the company has 11,000 employees, including 6,500 in Norway.

Like many of its rivals, Hydro has focussed its expansion downstream and on higher value-added products. However, it has steered clear so far of the relatively low-margin foil and can sheet (rolled products) markets to concentrate on extrusions. While this business is much more difficult to manage because of its fragmented nature, it can be very rewarding, Mr Flaa points out.

He recalls that in 1986 Hydro's extrusion capacity was only 90,000 tonnes a year. By 1991 that will be up to nearly 300,000 tonnes and the company is still looking to increase its presence in Europe and the US. Extrusions account for about 60 per cent of Hydro's downstream products with rolling mills (which suffered losses last year) taking 23 per cent and the remainder split between aluminium wire, 11.5 per cent, and finished products, 5 per cent.

Hydro is much less vertically integrated than most of its major competitors but Mr Flaa suggests that, with its own downstream products taking about 65 per cent of the primary aluminium the company produces, it is not doing too badly.



Mr Alan Charman, chairman of the Aluminium Stockholders' Association in Britain. He would like to see the level of processed aluminium rising to 75 per cent of the total during the next two years.

Stockholders become metal bashers

ALUMINIUM stockholders have increasingly taken on the traditional role of the metal bashing contractor over the past five or six years.

The movement towards added value has pushed the level of processed aluminium passing through the stock holding system to 60 per cent of the total – "we would like to see that proportion rising to 75 per cent over the next two years," says Mr Alan Charman, chairman of the Aluminium Stockholders Association.

The rate of progress so far indicates that the target is well within reach. In the past seven years, the association's 32 members have virtually doubled the quantity of processing equipment at their disposal. In 1983, they had 68 guillotines, 74 bar saws and 36 plate saws.

This year they have 11 guillotines, 167 bar saws and 87 plate saws. The association's members are determined to set high standards of quality and to progress further down the processing route. Mr Charman's own company, VAW, has spent £400,000 on processing equipment and the figures for investment throughout the industry are "very high", he says. Annual turnover for the association is in excess of £250m. About 24,000 tonnes of rolled and 9,600 tonnes of extruded aluminium are held in 168 warehouses.

Despite the rapid approach of 1992 and the Single European Market there is little cross relationship with the continent on standards

It holds about 85 per cent of the UK's engineering market, and supplies more than 65 per cent of the country's industrial needs outside the packaging sector. The amount of metal being sold, however, has remained flat. This year the association estimates that stockist sales of rolled and extruded products will be 122,000 tonnes – the same as the level last year and in 1988.

Over the same period, the amount of extruded aluminium sold has fallen steadily from 37,000 tonnes in 1988 to an estimated 34,000 tonnes this year. This is exactly the same figure that was recorded in 1987, when only 83,000 tonnes of rolled aluminium was sold, compared with an estimated 88,000 tonnes this year.

The fall in sales of extruded products reflects what Mr Charman calls "the unfortunate performance of the UK construction and lorry and bus industries." Those two sectors are the main markets for extruded products.

While he says the UK may not be in recession quite yet, Mr Charman points out that the stock holding industry is in a unique position to pick up early indications of the way the economy is going – "we are metal bankers," he says, "with our capital tied up on the floor. "We see trends very early."

In the fourth quarter of last year stockist sales fell away sharply, leaving the association's 1989 estimate for total sales of 126,000 tonnes well wide of the mark. This year's fourth quarter may not be much better, he believes.

The association will be watching the Christmas period very carefully. If small engineering companies are closed for three weeks, the stockholders will know that a period of belt tightening lies ahead.

Mr Charman feels that the level of sales will fall in 1991, possibly by 2 or 3 per cent. And while he is anxious not to paint a picture of doom and gloom, he points out that UK sales have been flat for the past three years while the trend in France and Germany has been ever upwards.

Despite the rapid approach of 1992 and the Single European Market there is very little cross relationship with the continent, so the association has set up a committee to look at the standards used in all the EC countries.

Problems arise not only because the alloys of aluminium used vary widely, but Britain remains out on a limb with its measurements system.

Lip service has been paid to metrication in that one inch has been identified as 25.4 millimetres. So the standard British eight feet by four feet sheet is ordered as 2438mm by 1219mm. The European equivalent is 2500mm by 1250mm.

The thickness of the sheets is measured in Europe in millimetres. In the UK the thickness measurement is based on the old Birmingham Standard Wire Gauge – 16 gauge comes out as 1.63mm.

A UK requirement for sheets of 2438mm x 1219mm x 1.63mm not only looks a little odd beside a German order for 2500mm x 1250mm x 1.5mm, but it means the UK stockist has to carry sheets in two sizes – an obvious cost disadvantage when he already has to carry two or three different alloys as well.

Mr Charman believes that the UK will eventually adopt the European standards and says the association is determined to be ready to supply UK industry – "there are some very large French and German companies out there – when and if the standard changes they will come in." At the same time as moving towards standardisation, the stockholders believe they can improve their just-in-time delivery systems, under which they can deliver a set number of items on a regular basis.

"UK industry has not caught on to just-in-time like Japanese and German industry," says Mr Charman. Meanwhile, the industry is fighting the high level of UK interest rates, which he says have hit the industry hard. Stock levels are at the lowest levels for three years – and "a lot of that reflects the high cost of cash."

"We have also had people delaying payments. This has been noticeable over the last three or four months, and it is simply the high interest rate policy," Mr Charman asserts. He is particularly concerned about the building sector, a major customer, where one big company going into receivership can take many others with it.

However, he believes the stock holding industry in the UK is the most sophisticated in Europe, and its basic function of breaking down the huge ingots that emerge from the aluminium rolling mills is likely to increase in importance. At present the ingots average around five or six tonnes, but in the mid-1990s it is likely to be double that.

David Blackwell

The London Metal Exchange's aluminium contract sees rapid growth, says **David Blackwell**

Strong contender seeks more US trade

THE LONDON Metal Exchange's aluminium contract is a mere infant compared with copper, the old man of the ring. Yet its growth has been remarkable, and while it is not challenging for copper's crown, it is easily the second most traded contract, with just over 30 per cent of total LME business, against copper's 45 per cent.

The exchange is well satisfied with the contract for 99.7 per cent pure aluminium, which was launched in 1987 and took over the mantle of the old 99.5 per cent pure aluminium contract at the end of 1988.

"We are happy with it – we don't see the need to tinker with it," says Mr Martin Abbott, the LME's marketing director.

The old contract was killed off because it was believed to be inefficient and open to squeezes. But the introduction of the 99.7 contract – the first to be denominated in US dollars – has not entirely erased the aluminium industry's old criticisms that LME metal is for buying and selling, not using, and that LME prices are too volatile.

So far this year, the cash price has hit a high of $2,227.50 a tonne and a low of $1,380 a tonne.

The automotive industry, with its need for long-term planning and pricing, has a particular horror of LME price volatility. The exchange believes, however, that all users of the metal should use it to stabilise the risk of price swings.

"The LME does not create volatility. It reflects what happens in the real world," says Mr Abbott.

"The automotive industry should use the LME as a hedge. The reason the LME exists is to protect the user of metals against volatility through a hedging programme."

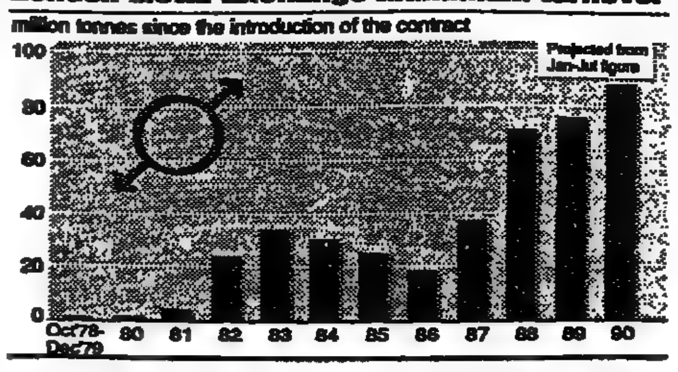
He believes that critics of the LME have too fond memories of the old days of producer pricing. In those days the aluminium industry was integrated, with producers in control from the bauxite stage to the semi-fabrication stage before the metal came on to the market.

"Aluminium is no longer an industrial metal. It's a commodity metal," says Mr Abbott.

Just as copper goes into the international trading system as soon as it reaches the concentrates stage, so there is now a vast amount of aluminium being produced around the world which can only be sold on to the world market as a commodity sale.

London Metal Exchange aluminium turnover

million tonnes since the introduction of the contract



Although there are no changes planned for the contract itself, the LME is planning to make a huge attack on the US market next year, part of which involves setting up warehouses which can hold LME aluminium on warrant.

The LME has held back from actively seeking business in the US in the past couple of years because of problems with the Commodity and Futures Trading Commission (CFTC), mainly over the segregation of client accounts. These have now been solved to the satisfaction of both sides.

"We can now market ourselves vigorously in the US and say to them 'Your regulatory authority has given us its stamp of approval,'" says Mr Abbott, who is planning seminars, a roadshow and increased advertising.

"The US is a vast industrial nation and there are people out there who have never heard of the LME. It's a huge potential market, but our task will also be huge."

The first step will be the opening of the long-awaited US warehouses. The LME board has approved locations in Baltimore, Chicago/Toledo and Bridgeport/Newhaven.

The LME expanded its warehouses in Japan to six last year, but they have not been used as much as some observers expected. However, the exchange is not unhappy.

"Warehouses are a location of last resort," says Mr Abbott. "You cannot measure success by the amount of metal in them. They should provide an accurate measure of the total amount of surplus metal available."

In the old days, a shortage of metal in LME warehouses in Rotterdam could push the world price of aluminium higher.

But the spread of warehouses to Japan, Singapore and shortly to the US means that any unwanted metal in centres of high consumption can be easily delivered against the LME contract, and just as easily retrieved, without any transport delays.

"Now we are less parochial, the LME price becomes more of a world price," says Mr Abbott.

Twice a week stock reporting, introduced in April, has also helped to smooth price fluctuations, the LME believes. Stocks in LME warehouses are now announced on Tuesdays and Thursdays, instead of only on Mondays.

"We are pleased with the effect," says Mr Abbott. "The market is no longer agog on Monday to see what the stocks were the previous week."

But the exchange will not be moving to daily reporting of stocks; it trades around the clock, and would have to create an artificial cut-off time to give stock figures every day.

While the aluminium contract is set to continue unchanged in terms of specification, it will join the changes the LME is planning for all six base metals contracts.

The exchange is planning to extend both the aluminium and the copper contracts to 39 months forward instead of the present 15 months forward, (the other four will be extended to 27 months forward).

The London Metal Exchange is to explore the potential for a contract in secondary aluminium ingots

In addition, cleared contracts are likely to be denominated in Deutsch Marks and Japanese yen as well as in the currently used dollar and sterling.

However, the dollar and sterling will continue to be the currencies quoted in the ring.

Announcing the changes last month, Mr David King, chief executive of the LME, said the exchange was responding to "the ever-changing commercial and regulatory environment" in which it operates.

Profile: Alcoa's Paul O'Neill

Heavyweight with global punch

THE aluminium industry's most influential manager is also its most controversial.

Mr Paul O'Neill, chairman and chief executive of Alcoa, the world's biggest aluminium group, astounded the industry last November when he overruled the advice of most of his senior executives and refused to lower Alcoa's US can sheet prices at a time when the cost of primary metal was falling fast and his rivals were adjusting their can sheet prices accordingly.

He appalled the industry in October when he insisted that Alcoa report its production and stock statistics to the International Primary Aluminium Institute only quarterly instead of monthly. The rest of the industry's arguments, that the IPAI figures were an invaluable guide to the industry's health, failed to sway him.

However, he met with considerable approval when, uninvited and previously unannounced, he hi-jacked a Press conference called by the National Wildlife Federation and angrily accused that organisation of "malicious, deliberate misrepresentation" of Alcoa's record.

He told me later: "I'm interested in environmental matters – including not wanting to be an immobile punching bag."

Some suggest that Mr O'Neill's behaviour stems from the fact that he is a relative newcomer to the industry. He took the helm at Alcoa as recently as April, 1987.

At first sight, Mr O'Neill seems the epitome of the quiet, "buttoned-up" US manager. But the steel is clearly recognisable beneath the velvet as he says: "This industry is made up of intelligent people and I don't do anything deliberately offensive to them. But I won't be a member of the club for the sake of harmony. That's not my style."

He says that the decision to hold can sheet prices, which his rivals estimate cost Alcoa about $200m in lost revenue and several percentage points in market share, was taken with the longer term view of achieving more-stable prices.

"This industry creates its own mediocrity by signing up for the idea that everything it produces is the same. Effectively the industry has created the notion that all products from all the manufacturers are the same.

"Yet users will tell you there *are* differences – there is better or worse of everything, even if it is just in delivery responsiveness.

"With can sheet you can see the productivity of a can (making) plant change as it changes the coils it gets. And if Alcoa's coil can improve productivity by 20 per cent, is it unfair to ask more for it?"

Mr O'Neill's main rival in the US, Mr Bill Bourke, chairman of Reynolds Metals, has little sympathy.

"The big beer companies make their own cans and are right up to speed on technology – they squeeze the hell out of the can maker who then puts pressure on the can stock producer," he says. "No guy out there can hang on being uncompetitive. If you don't meet the competition you are in trouble."

Mr Bourke suggests that, in any case, Alcoa ultimately caved in and subsequently undercut its competitors in an attempt to win back market share.

On the question of the IPIA statistics, Mr O'Neill says: "You would have thought I had declared the third world war from the way the industry reacted."

He says he is questioning everything Alcoa has been doing as a matter of routine – "including why we had to fill out all these reports to all kinds of bodies, from the federal Government down.

"It all takes up people's time, perhaps only 15 minutes, but that 15 minutes each for ten different people in plants all over the world. What do we get out of it in return?"

There was another reason for the decision to report Alcoa's statistics only quarterly. Mr O'Neill is convinced that primary aluminium prices are more stable without the "monthly stimulus" of the IPAI report on the industry's stocks. He dismisses the industry's suggestion that monthly statistics are vital: "Anyone who makes a strategic move on the basis of one month's figures is crazy."

Mr O'Neill adds: "It is not apparent to me that past practices have served Alcoa well. In the 1980s there was a common notion that this was a lousy industry and one to be avoided. I don't believe that.. I won't stick to practices with no logic. We would not have wanted to make changes if the company had done wonderfully well in the past."

Paul O'Neill's strategy sounds simple – "Alcoa is to be the best aluminium company in the world and in a leadership position in everything else we do."

In fact, some of the Alcoa directors were so concerned about the direction the group was taking in the mid-1980s that they ousted Mr O'Neill's predecessor and lured him away from the presidency of International Paper.

After taking over the staid, century-old Alcoa, Mr O'Neill scrapped most of its expansions into new, high-tech businesses.

"Without great success in the aluminium business, there is no future for Alcoa," he says baldly. His strategy sounds simple. "Alcoa is to be the best aluminium company in the world and in a leadership position in everything else we do."

He can thank his predecessor, Mr Charles Parry, for the fact that Alcoa's aluminium operations have been slimmed and modernised since 1986. In that year it put aside $256m to cover the cost of taking out 350,000 tonnes of primary aluminium smelting and related capacity. That represented a 25 per cent reduction.

There was also an 18 per cent reduction in salaried staff and Alcoa won more flexible practices from its hourly-paid people.

Since his arrival, Mr O'Neill has written off $231m of assets and costs, retired nearly $300m of high-cost debt and sold oil and gas assets for $47m.

He says Alcoa must make a 15 per cent return on equity over the demand cycle. "Otherwise it means we are going out of business."

Mr O'Neill suggests Alcoa is not given enough credit for the daring steps – for a US company – it took when it went into Australia and Brazil for some of its primary aluminium production. Now he wants to build up the group's operations in Europe and the Far East, where growth in demand for aluminium is much higher than in the US.

As part of this objective, Alcoa last month agreed to form a joint venture with Kobe Steel of Japan to produce can sheet in Japan and to collaborate on developing aluminium products for the automotive industry.

There is another reason for being more global – "successful companies in the future will be those which are worldwide in their thinking. They will apply the best ideas available in the world." Responding to the frequently-asked question about how long he will stay on, Mr O'Neill, still only 54, says: "There's no denying that I'm interested in what is going on in society in the broader sense." He is chairman of two of President Bush's committees (education and social security), but "that does not mean I'm not interested in Alcoa."

He points out that he was a government official for 15 years and with International Paper for 10 – "that shows I'm not hopping from job to job. I hope I will be here (with Alcoa) 11 years from now. I'm having a good time and I think I'm making a contribution."

Kenneth Gooding

Jochen Schirner, chairman of the European Aluminium Association and president of VAW – "times have been good," he says. VAW is to invest in a DM900m expansion project at Aluminium Norf, which already has the world's biggest aluminium rolling plant at Neuss.

Profile: Vereinigte Aluminium-Werke

German giant chases higher grade products

THE FIVE-YEAR Dm2.8bn (US$1.8bn) investment programme recently announced by VAW (Vereinigte Aluminium-Werke), of Germany, reflects the group's philosophy and main strategic direction. "Our strategic orientation is to higher value products," says Mr Jochen Schirner, the company's president.

He also points out that, while there seems to be no reason for Europe to close any more of its primary aluminium smelters, "any new capacity required by the European companies will be placed elsewhere in the world."

As part of its swing towards the higher-value part of the business, VAW is to invest in a DM900m expansion project at Aluminium Norf. Sharing with its 50-50 partner, Alcan of the US, VAW will boost Norf's capacity from 650,000 tonnes a year to about 1.4m tonnes.

VAW will spend another DM280m to expand the associated, wholly-owned rolling plant at Grevenbroich.

Norf makes foil and strip for the packaging and printing industry. Mr Schirner says that demand for Norf's products is outrunning its ability to supply in spite of all the technical changes and productivity improvements implemented in the past few years.

VAW also needs more primary aluminium production capacity but will obtain this with the development of the C$1.4bn Alouette smelter at Sept Iles in Quebec, Canada. VAW has a 20 per cent stake in this consortium venture and will manage the project, destined to produce an annual 220,000 tonnes, starting in June, 1992. A second phase could add another 215,000 tonnes.

In contrast, VAW in the past year in Germany has sold its old Neumunster smelter to its management and closed down its Lunen smelter. Yet only a few years ago this would have been unthinkable.

Mr Schirner recalls that in the 1970s, VAW, then part of a state-owned group, started to build new smelting capacity in Germany to supply its domestic market.

This decision was based on the expectation that there would be a future plentiful supply of nuclear power. But when that smelting capacity came on stream the world had changed. Aluminium had become a global industry, there were free exchange rates and, in Mr Schirner's words: "the future for nuclear energy was cloudy."

VAW changed its tack – "we saw that primary aluminium capacity would move to those areas with cheap power. We saw our job, as a group close to our customers, was to provide semi-fabricated products.

"We also saw that Europe is a highly developed market and that we should not go in for standard semi-fabricated products, but the more sophisticated types."

So VAW's investment in the 1980s was mainly in rolled products and specialised extrusions (such as the huge extrusions it produces for rail cars).

Although the 1970s were difficult for the company because of the oil crises and an overvalued German currency, from 1983, when it merged its primary and fabricating companies, "times have been good," says Mr Schirner.

Since 1983 VAW has been able to restructure its balance sheet so that it is now virtually debt free and all its assets are fully depreciated.

It quit "difficult" businesses by closing the old smelters and two alumina refineries or by changing the products and started to build up a primary capacity base outside Germany by taking a 12.5 per cent shareholding in the Tomago smelter in Australia before joining the Alouette consortium.

VAW also moved far downstream into packaging but into the niche for flexible packaging where, after recent acquisitions in Italy and Spain, it has joined the market leaders.

Flexible packaging, which incorporates paper, plastic and aluminium, is used for long-life milk (UHT) products and high quality drinks such as fruit juices which need protection against the light to preserve the vitamin content.

VAW last month pulled together the six flexible packaging companies it now owns in five countries into one, new division. Mr Schirner says of the flexible packaging operations: "You don't need a company of huge dimensions but you need to be close to the customers in all markets because of the complexities involved – printing in eight colours for example. We also have some big customers who want the same products in all markets."

Flexible packaging does create a recycling problem, however. While it is easy enough to separate the various elements, it is not yet clear what can be done to recycle the plastic economically.

The company is building a pilot plant at its research centre in Bonn, at a cost of between DM8m and DM11m, to tackle this particular challenge.

VAW consumes about three quarters of its own annual primary aluminium output – 444,100 tonnes in 1989 – and Mr Schirner insists that the group will remain a supplier of primary metal to the market. With that in mind, the company is also building up its scrap and recycling activities because much more of its raw material will come from these sources – "we want to take the cream of the scrap and produce metal to equal the best of our primary," he says. (VAW accounts for about 25 per cent of the world's supply of very high-purity aluminium).

VAW, which last year reported a net income of DM80m on a turnover of DM5.8bn, is part of Viag, the large German holding company which also has energy and chemical interests.

Viag was privatised in 1988 when the West German Federal Government sold its remaining 80 per cent to the public.

Last December Viag contributed another DM212m by taking up new VAW capital This year VAW's capital expenditure will double from the DM214m chalked up in 1989.

Mr Schirner says VAW will pay for the DM2.8bn investment programme from the cash it is generating and it can afford to build up its debt again, perhaps to DM800m.

He says demand from the various operations for money for good, viable projects is so great that the board might well increase the investment programme when it meets at the end of this year.

Kenneth Gooding

FINANCIAL TIMES SURVEY

PORTUGAL

SECTION III

Wednesday October 24 1990

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● Finance: the banks prepare for the single European market, Page 5

Joining the European Community in 1986 transformed Portugal almost as much as the 1974 revolution. However, much needs to be done, and as Patrick Blum reports, it may take another 10 or 15 years to bridge the gap with the country's more affluent neighbours

Pressures of integration

AFTER FIVE years of rapid economic advances and development, Portugal is facing a more uncertain future. The euphoria that followed the country's accession to the European Community in January 1986 has given way to a more cautious and wary appraisal of the tasks ahead as integration pressures mount.

Joining the EC has transformed Portugal almost as radically as the revolution of 1974 that ended 50 years of dictatorship and isolation. Membership has brought evident material benefits and helped the country to modernise at a fast pace. Much still needs to be done, however, and it may well take another 10 or 15 years for Portugal to bridge the gap with its more affluent neighbours. But for almost five years, the Portuguese economy has been growing faster than most of its European partners, with annual growth rates above 4 per cent and topping 5.4 per cent last year.

EC membership has encouraged foreign investment which has poured into the country at an unprecedented rate, doubling every year and forecast to reach close to $5bn this year. It has brought also a massive injection of funds from social, structural and regional aid programmes to help modernise infrastructures and communications, industry and agriculture, education and training.

New industries and services have created new jobs, contributing to bringing down the official unemployment rate to around 4.5 per cent. The scarcity of labour in some sectors is pushing wages up, though they would have edged upwards anyway as the population strives for standards of living closer to European averages. A consumption boom has taken hold and is proving resistant to government attempts to dampen it.

The role of the state is gradually being reduced through privatisations, the financial sector has been liberalised (though critics say too timidly), markets are opening up, the tax system has been reformed and rigidities in the housing sector are being gently eased.

Social disparities are less obvious, thanks to the growth of a new middle class, though not everyone has benefited equally from Portugal's new-found prosperity. Pockets of poverty still blight parts of the major cities, and life in some rural areas is more typical of that in a developing country than of western Europe. The education system is in a state of permanent crisis, unable to cope with rising demand for places in schools, colleges and universities. The health system is split between a fast growing and expensive private sector, and an overworked, understaffed and underpaid state sector.

Lisbon old and new: the modern skyline overlooks traditional style rooftops

Ashley Ashwood

With some exceptions, public services are poor and inefficient, and safety standards are low by west European standards. The low unemployment figure hides underemployment and an increase in precarious part-time work.

It will take time and political commitment to overcome these enduring social problems, but the balance of almost five years of Community membership has been a positive one for Portugal, in so far as it has provided some of the resources that are required and an incentive to tackle these problems.

The marriage has worked, but the circumstances were propitious. The EC bride came with a large dowry and a fountain of goodwill. Portugal was given extra time before having to live up to all the responsibilities of union. Its chronically inefficient agriculture, which employs about 18 per cent of the workforce yet contributes only 7 per cent of GDP, and its old traditional industries could hide a little longer behind a curtain of protected markets and subsidies.

But all this is about to change. EC moves to create a Europe-wide open internal market and towards economic and monetary union are speeding up the need for adjustment. Agriculture and traditional industries such as shoes and textiles – Portugal's largest industry, responsible for about 30 per cent of export earnings – are having to brace themselves for much fiercer competition. Some farmers and small companies will be forced out of business – some already are. In the textile industry alone, up to 30 per cent of the workforce may have to go. The forthcoming restructuring will be painful.

Mr Anibal Cavaco Silva, the social democratic Prime Minister, admits that it will not be easy, not least because the habit of protection has not been fully shaken off. He says bureaucracy and vested interests hamper the government's efforts at reform. Many industrialists, while claiming support for free competition and private enterprise, still hanker for state intervention to safeguard their domestic markets, though they are happy to benefit from whatever subsidies Brussels makes available.

"There are additional shocks for Portugal. Accession [to the EC] was the first shock, but others soon followed with the reform of agricultural policy and the internal market. Now eastern Europe is competing for trade and investment. The balance [of EC membership] has been very positive, but there are real difficulties ahead of us", Mr Cavaco Silva says.

The threat from eastern Europe tends to be overplayed. Portugal still has much to offer to foreign investors: from one of Europe's most pleasant locations to free access to the whole of the EC market – a key consideration for major industrial investments from non-EC countries. Communications have improved; managers say workers are adaptable and can be trained quickly, and that productivity in new factories is high by European standards. Strikes that regularly paralyse parts of the public sector are practically non-existent in the private sector, and manufacturing costs, including wages, are still among the lowest in the Community. All these things favour Portugal.

The problem is not with the new sectors, but with the old. Critics say that outside the financial system, the government has failed to undertake the necessary restructuring.

Inflation, at around 13 per cent, is causing the Government some headaches, but it is almost inevitable in view of the high level of economic activity and investment. Better off workers in steady jobs and good companies are saving less and spending more. Factories are installing new machinery and equipment.

Local production cannot meet the twin demand for consumer and capital goods, so imports have soared causing a deterioration in the current account balance.

Mr Cavaco Silva does not like the present level of inflation, but if the choice has to be made between maintaining high growth or slashing inflation, he will opt for the former: "We have to grow, there is no choice. We cannot afford to bring down growth to 2 per cent for the sake [of fighting] inflation."

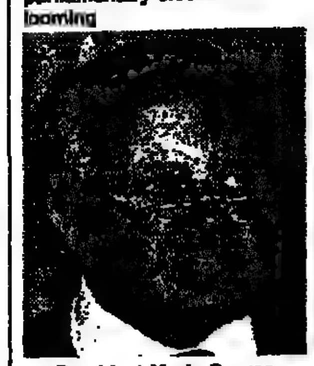
However, many suspect that with a general election looming, there will be a growing temptation to impose temporary price controls. In the meantime, greater efforts will be made to contain the budget deficit, though expenditure to co-finance EC programmes will be kept at a high level.

Mr Cavaco Silva hopes and believes the Community will understand Portugal's predicament: "We are doing all we can, but we expect the necessary solidarity from the other member states."

It is all a matter of timing and of time, but that is something that Mr Cavaco Silva may not have. General elections are likely in the first half of next year, and they could rob Mr Cavaco Silva of his absolute majority. The socialist opposition's programme would not substantially change the fundamental elements of economic policy, though more money would be spent on "care" – health, housing, and education. All the same, the prospect of elections adds an element of political uncertainty at a time of mounting economic pressures, both domestically and internationally.

The next phase of Portugal's transition towards greater European integration is likely to be more difficult than the first.

IN THIS SURVEY



President Mario Soares

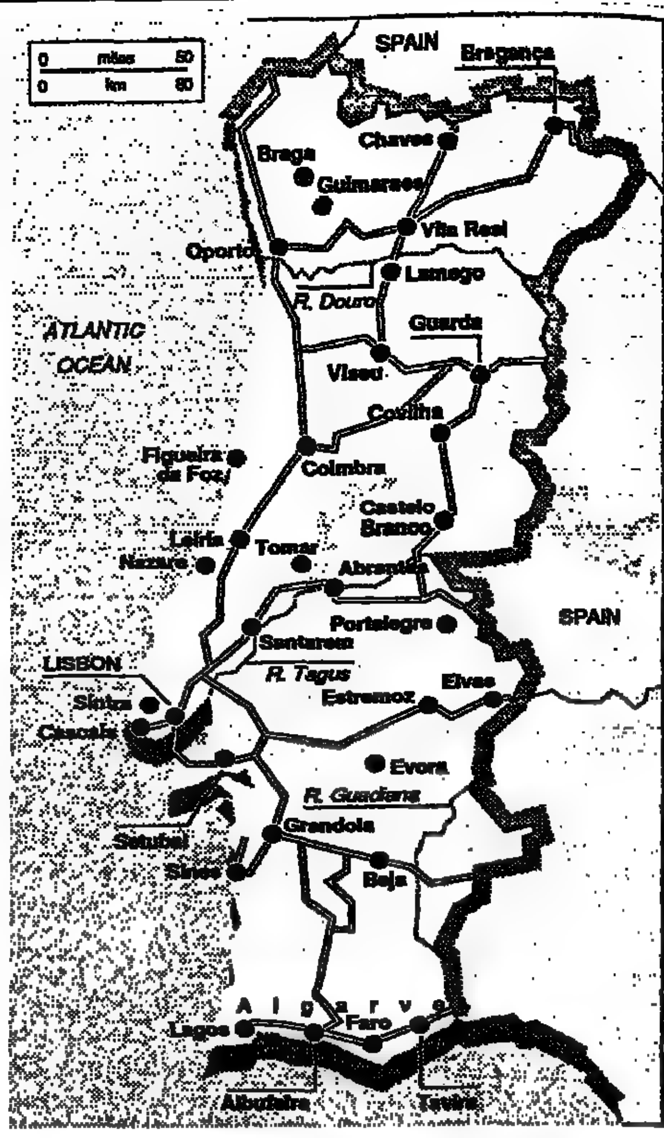
Editorial Production: Andrew Slade


Prime Minister Anibal Cavaco Silva (left) and socialist leader Jorge Sampaio

KEY FACTS	
Area	92,389 sq km
Population	10.47 m
Head of State	President Mario Soares
Currency	100 centavos = 1 escudo
Average exch rate	157.5 Escudos/$

ECONOMY	1988	1989
Total GNP (US bn$)	41.7	45.3
Real GDP growth	3.9%	4.8
GDP per capita (US $)	4,289	n.a.
Current account balance (US $m)	-885.8	-529.7
Trade balance (US $m)	-5,314	-6,185
Exports (US $m)	10,474	12,352
Imports (US $m)	15,788	18,717
Trade dependency*	63.0%	68.6%
Debt as share of GDP	40.1	n.a.
Budget deficit as % of GDP	-7.2	-7.1**
Total reserves minus gold (US $m)	5,127	9,952
Inflation	9.7%	12.6%
Unemployment	5.6%	5.0%
Increase in average earnings	11.3%	14.9%
Discount rate	13.7%	14.3%
Government bond yield	13.9%	14.7%

* Exports plus imports as % of GNP. ** official forecast.
Source: IMF, OECD, EIU.



As presidential and parliamentary elections loom, **Patrick Blum** analyses the political scene

Social Democrats fight to regain the lead

IN 1985, when Mr Anibal Cavaco Silva became prime minister for the first time to head a minority government, he could not have foreseen that he would remain in power until 1991. Until then, governments had followed one another in rapid succession, falling prey to censure motions and to factional infighting within and between the various political parties. Unstable governments were the rule rather than the exception.

Today, Mr Cavaco Silva admits that he did not relish heading a minority government and the accompanying constraints on his freedom of action. The dissolution of parliament in 1987, after a government defeat in a censure motion, gave him the chance to fight for and, more surprisingly, win an absolute majority – the first since the 1974 revolution.

That victory gave Mr Cavaco Silva's social democratic administration a unique opportunity to carry out an ambitious programme of reforms to modernise the economy and institutions.

Many of these reforms have been implemented or begun. The weight of the public sector is diminishing through a programme of privatisation, the financial system has been liberalised, labour laws made more flexible, and the tax system overhauled and simplified. Attempts at reform of education and of the health system have been less than successful, however.

Expectations may have been too high following Mr Cavaco Silva's victory, but disenchantment soon followed, both with the prime minister's style of government and his policies. Critics accused the government of being high-handed and dismissive of dialogue, and argued that its free market policies were exacerbating social inequalities. Others complained reforms were too timid and too slow.

Critics accused the government of being high-handed and dismissive of dialogue, and argued that its free market policies were exacerbating social inequalities

Mr Eduardo Ferro Rodrigues, a Socialist Party spokesman on economic matters, says the government has missed the chance to make real structural changes and that as a result, Portugal is as vulnerable to negative developments in the world economy as it was five or eight years ago.

Mr Cavaco Silva says these criticisms are unfounded and that he will stand by his record, but the government's standing has suffered.

The ruling centre-right Social Democratic Party (PSD) has been fighting to regain its lead among the electorate after a bruising defeat at the hands of the Socialist Party in local elections last December. In those elections, the socialists won Lisbon, the capital, and Oporto, the second largest city and main business centre in the north, as well as several other cities and municipalities.

The government's standing has improved since then, but time is running short. Presidential elections will take place in January, and parliamentary elections will follow shortly after, probably before the summer.

At Mr Cavaco Silva's insistence, the PSD will not be running its own candidate against Mr Mario Soares, the socialist president, who is standing for a second term. Mr Soares is highly popular and is expected to win easily against any opponent. PSD leaders say that relations with the president are good, making it unnecessary for the party to challenge him, though most commentators believe the decision was made to avoid the risk of a damaging defeat in advance of the parliamentary elections.

Mr Cavaco Silva has proved more wily than some of his supporters or critics expected, and remains untainted by party squabbles or scandal

The decision devalues the presidential contest, leaving Mr Soares with only minor opponents from the fringe parties. It also carries risks for the PSD should Mr Soares decide to politicise his campaign. Socialist officials say they will run a full campaign in support of Mr Soares on the basis of the party's programme. The intention clearly is to turn the campaign into a vote of no confidence in the government.

The most recent polls show the two main parties to be neck and neck, with a little over 35 per cent of voting intentions each. The PSD will need to considerably improve its standing if it is to win another overall majority.

Mr Cavaco Silva believes he will succeed, but Mr Jorge Sampaio, the socialist leader, will fight hard to deny him any majority. Whether the socialists can hope to win outright is debatable, though Mr Sampaio has not abandoned that goal, and it will be a tough fight.

Since the beginning of the year, Mr Cavaco Silva has worked hard to dispel his government's negative image. In recent months he has travelled across Portugal, opening new roads and factories, attending local festivities and meetings in an extensive 'meet the people' campaign. Officials say the policy is paying off, and that the prime minister has found widespread support, including from unexpected sources such as local communist officials in the Alentejo.

He has proved a more wily politician than some of his supporters or critics expected, and so far, he has remained untainted by party squabbles and scandals attached to prominent members of his administration.

He can also be ruthless. In a surprise end of year reshuffle, five ministers were replaced, including the ministers of finance and health, two close and loyal associates, whose public image had become controversial. Mr Cavaco Silva used the opportunity to tighten control over the cabinet and over major policy decisions.

Time will tell whether all of this will be enough to win him next year's crucial election, but it has been a clever way of making people forget the socialists success in last December's local elections.

In spite of five consecutive years of high growth, inflation remains a worry, writes **Patrick Blum**

Fast expanding economy is a victim of its own success

JUST AS Portugal's planners were preparing to put the final touches to the main economic options for 1991, the Gulf crisis erupted. Out came the red ink, and a more thorough reassessment became necessary.

Prompted by a spate of conflicting and, at times, alarmist press reports predicting 20 per cent inflation in 1991, Mr Miguel Beleza, the finance minister, presented his own more cautious assessment.

Official inflation targets have tended to be over-optimistic

Under the worst circumstances, with an average oil price of $35 per barrel next year, inflation would rise by an extra 1.25 percentage points and growth would fall by up to 0.5 percentage points. With oil at an average price of $25 a barrel in 1991 – described by Mr Beleza as the most probable scenario – inflation would rise an additional 0.25-0.5 percentage points and growth be reduced by a maximum 0.25 points. It would be "disagreeable, but not alarming", he said.

Nevertheless, every extra or minus point counts when it comes to fighting inflation and bringing down the budget deficit, two of the government's main preoccupations.

Official inflation targets have tended to be over-optimistic. An original target of 9.5 per cent to 10.5 per cent for this year has been abandoned, though it was hoped right up to the summer that price increases could be kept at below 11 per cent.

Expectations are now for an annual inflation rate of around 13 per cent, a fraction higher than in 1989.

The government regards this as unacceptably high, and wants to reduce the inflation differential with Portugal's European Community partners before the desired entry of the escudo into the exchange rate mechanism of the European Monetary System.

Portugal has shadowed British hesitations about the ERM, arguing that the escudo's entry should not take place before inflation comes down towards European averages.

Finance Minister Miguel Beleza: impact of Gulf crisis on inflation will be "disagreeable, but not alarming" Ashley Ashwood

However, Britain's decision to enter earlier this month could put pressure on the government to move sooner and under less favourable circumstances.

Mr Jose Alberto Tavares Moreira, governor of the Central Bank, believes the government's target of 10 per cent inflation next year is attainable but with some difficulties. "It will not be easy, and the [international] conditions are very uncertain", he says.

Developments in the Gulf will have an impact. Portugal imports around 83 per cent of its energy and is highly dependent on oil, which represents over 65 per cent of total energy consumption.

Mr Ferro Rodrigues, a leading economic spokesman for the the opposition socialist party, says the government's targets are unrealistic.

Britain's decision to enter the ERM could put pressure on the government

"How can a country which depends so much on imported energy see its inflation fall?"

Portugal's inflation problems are the product of its success in recent years, though a ballooning public debt and resilient public sector deficit also play their part.

The economy has been expanding fast, helped by EC membership since 1986 and through a massive modernisation programme, backed by EC funds.

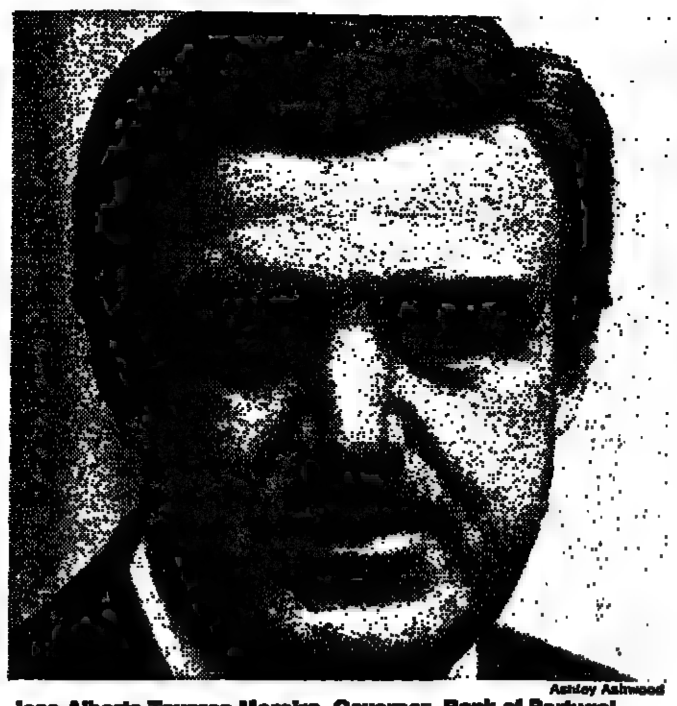
Five consecutive years of high growth culminated in a European record growth rate of 5.4 per cent in 1989. This year, GDP growth is expected to be 4 per cent, to be followed by a forecast 3.5 per cent in 1991, though some economists believe the government will do well to achieve anything above 2 per cent.

Despite the high cost of borrowing – the prime corporate rate for six months is at around 24 per cent – investment remains strong. The rate of expansion of investment has slackened but is expected to be between 8 per cent and 10 per cent this year.

Direct foreign investment has boomed, having doubled every year in the past four years to reach a record Es353bn ($2.4bn) in 1989, and is expected to double again this year. Unemployment has fallen below 4.5 per cent, causing recruitment problems in some sectors.

The effect of such a high level of activity has been to boost internal demand and consumption, and to sharply drive up imports, which rose to Es2,059bn ($14.2bn) in the first seven months of this year – up 22.6 per cent compared with the same period in 1989. Exports rose by a sturdy 24 per cent to Es1,397bn ($9.6bn), but still trailed imports.

The trade deficit worsened by 20 per cent to Es662bn ($4.6bn) for the period, contributing to a further deterioration in the external balance.



Jose Alberto Tavares Moreira, Governor, Bank of Portugal Ashley Ashwood

The current account deficit rose in the first six months to just above $1bn, almost as much as for the whole of last year. The central bank expects the current account balance to close at the end of the year with a deficit of up to $1.3bn, compared with $600m in 1989. Mr Tavares Moreira says this will still represent less than 2 per cent of GDP, a level that is manageable.

Oil represents more than 65% of total energy consumption

Private consumption, boosted by a high level of personal savings, has resisted official attempts to curb it.

Despite credit controls and high interest rates, consumer demand has continued to grow rapidly.

In the first six months of this year, imports of consumer goods registered a 40 per cent rise in escudo value compared to the same period in 1989. Car sales were 24 per cent up in August alone.

The government is also having difficulties in reducing the budget deficit, which represents about 7 per cent of GDP. Mr Beleza is trying to contain expenditure, but he could do little to alter the budget for 1990 prepared by his predecessor and approved by parliament before he took office in January. Some minor cuts were imposed on administrative expenditures, though much of the benefit was wiped out by increases in pensions. The need to co-finance projects backed by EC funds also reduces the scope for savings.

Private consumption has resisted attempts to curb it

On the revenue side, income from privatisations is helping to pay off some of the government debt, and tax collection has improved. The government does not plan to increase direct taxation, but a broadening of the value added tax net and higher indirect taxation are expected for 1991. Fuel prices have already been increased to take account of higher oil prices, and the government has indicated that it will pass on these rises to consumers.

Industry has been running at a high level of capacity, though there were signs earlier this year that manufacturing was slowing down. The industrial production index fell from a rate of expansion of 8 per cent in April to 5.5 per cent in May, with the decline affecting mainly the paper, oil derivatives and coal industries and the production of investment goods.

Company returns have been strong enough to sustain a high level of self-financing for modernisation and expansion. But businesses worry about the combination of rising interest rates and of energy and labour costs at a time when they must make major adjustments to remain competitive in the post-1992 European market, which absorbs almost 70 per cent of Portuguese exports. The strength of the escudo against the dollar also worries companies exporting or providing services denominated in dollars.

Despite the government's relative optimism, business has become more cautious about prospects for next year.

BALANCE OF PAYMENTS - SELECTED STATISTICS ($m)

	1985	1986	1987	1988	1989
Current account balance	386	1,150	444	-1,064	-581
Merchandise	-1,504	-1,680	-3,581	-5,518	-5,152
Imports	7,177	8,882	12,849	16,393	17,934
Exports	5,673	7,202	9,268	10,875	12,782
Services	-361	-85	250	137	219
Imports	2,642	2,867	3,402	3,893	4,134
Exports	2,281	2,782	3,652	4,030	4,353
Tourism	901	1,203	1,721	1,689	2,013
Direct foreign investment	717	155	316	839	1,396

Source: Bank of Portugal Annual Report

MAIN ECONOMIC INDICATORS (% change)

	1990	1991*
Internal demand	5.5	4.0
Gross capital formation	10.0	7.5
Gross Domestic Product	4.0	3.5
Exports	13.0	9.0
Imports	15.0	8.5
Current account balance (as % of GDP)	-2.25	-3.0

*Estimate, September 1990; likely to change in Budget.
Source: Ministry of Planning

A decision on a new Ford-Volkswagen joint venture is eagerly awaited, reports **Tim Dickson**

Incentives and low costs lure investors

Manufacturing jackets, trousers and suits in the Maconde factory, near Oporto. Textiles and clothing account for about 30% of exports

Ashley Ashwood

DIRECT foreign investment in Portugal shows no signs of slowing down.

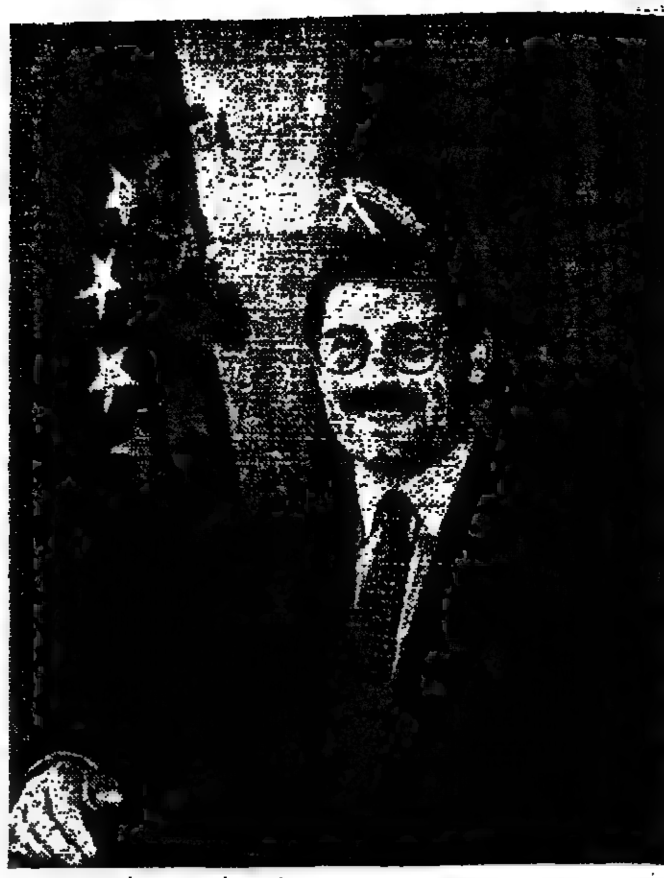
A total of Es231.2bn. was invested during the first six months of this year – almost 120 per cent the level of the first half of 1989.

The banking sector appears to have been particularly active, increasing its share of the half yearly figures from 15.5 per cent to 30.6 per cent. Investment in industry has also been strong, according to the Instituto do Comercio Externo de Portugal (ICEP), notably in the chemical industries, in the manufacture of metallurgical products, in equipment goods and in transport materials.

Britain, Spain, Germany and France are the main sources of foreign investment – with Brazil, the United States and Japan all prominent among non-European Community countries.

The question now is whether this promising trend will slow given the lure of eastern bloc countries and the dent to expectations which will almost certainly be delivered by the Gulf crisis.

Over the last 15 months, Portugal's advantages of low cost production, a peaceful industrial climate (there are remarkably few strikes), good financial incentives and a pleasant environment have landed major projects from Ford (Es22.3bn in July 1989 to make car audio equipment) and General Motors (an Es9.4bn investment by GM's Delco Remy division to produce electronics ignition systems). Both plants were located in Setubal, the area about 30km south of Lisbon which was hit hardest by the decline of traditional industries but which has been remarkably successful over the last five years in attracting new jobs.



Antonio Neto Da Silva, secretary of state for foreign trade

All eyes now are on whether Ford and Volkswagen will go ahead with their joint venture plans for a new car project in Portugal.

According to Mr Antonio Neto da Silva, Lisbon's relaxed secretary of state for foreign trade, the decision on what would be Portugal's biggest ever foreign investment should be announced early next year and he is confident that it will go the right way.

Details of the government's financial package have not yet been finalised – the emphasis will apparently be on training and fiscal incentives – but according to Mr da Silva, the main uncertainty is not the location but whether the companies concerned will proceed at all.

Portugal, says Mr da Silva, has become much more selective about which projects it will back. Too much money, he believes, was paid to some recipients in the past, those which did not have what he calls a real "dimension" factor, either by bringing new technology or enhancing the country's export potential. "With 4.8 per cent unemployment job creation is not a priority today", he adds bluntly.

In an apparent break with previous policy, Mr da Silva insists that Portugal should not differentiate between different industrial sectors. "We believe that we have to improve in every sector of the economy, though we do not encourage investment in real estate because of the speculative risks. My thinking is different to that of the theory of competitive advantage. Competitiveness has to be conquered every day and we constantly need to innovate. Although competitive today we may not be competitive tomorrow if we do not invest".

Portugal's big challenges, says Mr da Silva, are to find good management to "join" with the country's efficient labour force and to make sure that companies find reliable and good quality suppliers.

Patrick Blum finds a minor revolution in foreign sales

Exporters target Spain

PORTUGUESE companies have been slow to expand their activities abroad. With some notable exceptions, few companies do much marketing outside Portugal, and even fewer have established a physical presence in a foreign market.

The result is not just missed opportunities but a lack of recognition for Portuguese products outside Portugal.

While exports have boomed and many local products are sold in London, Paris or Dusseldorf, there are few Portuguese brand names on display on the shelves because many of these products are "finished" in the country of sale.

This is especially true of textiles and clothing, which account for about 30 per cent of exports.

There are exceptions. Cenoura, a successful company making children's clothes, uses its name – which means carrot – as an identifiable label in the same way as Lacoste, the French casual wear manufacturer, is recognised by its small crocodile. Started and run by three enterprising women, the company has expanded fast and won a reputation for good design. It is now about to open shops on a franchising basis in Spain and Ireland.

Other companies are preparing similar moves; Sonae, one of Portugal's largest private groups, has opened a supermarket in Brazil and is preparing to move into Spain. But until now, few Portuguese companies have made the leap directly into foreign markets.

All this may be about to change. The Portuguese Foreign Trade Institute (ICEP),

More than 70 per cent of exports go to EC countries

which until recently was mainly geared towards encouraging foreign investment and promoting Portugal's image, has recently taken on the task of helping domestic companies to sell their products and invest abroad.

ICEP's new role represents a minor revolution. "This is the first time that there is a specific organisation to support Portuguese companies which want to go abroad", says Mr Miguel Athayde Marques, ICEP's young new vice-president.

The move is timely. More than 70 per cent of Portuguese exports go to European Community countries and with the completion of the internal European market in 1992, competition is expected to rise sharply. Portuguese companies will no longer be able simply to sit back waiting for orders to arrive.

"There has been a tendency for companies to let their products be bought rather than to sell them", Mr Marques says. The approach was to sell "by container" without paying too much attention to what was really wanted in an individual market.

"Now they realise they need to know what the consumer wants", says Mr Marques. It means also paying more attention to design and quality as well as sales and promotion.

Companies will need a definite export strategy to safeguard their long-term future, he says. "It is important for the survival of many Portuguese companies because the domestic market is very small."

ICEP helps companies by providing information on local markets, put together by its own staff from 43 offices in 41 countries. It will also assist them to set up their own representative offices. Finance for investment and credit lines are provided by the Banco de Fomento Exterior and other banks.

The authorities have focused their promotion efforts on Spain, the US and Japan. The Spanish market, which is roughly four times larger than Portugal's and within easy reach, is an obvious choice for expansion.

ICEP is sponsoring two trade shows and a Portuguese week in Madrid at the end of this

Companies will need a definite export strategy

month in which it will promote the best Portuguese consumer and industrial products with a emphasis on high technology, design and quality. This is supported by an extensive advertising campaign.

To carry out its activities, including its promotion of Portugal as an investment location for foreign companies, ICEP has a relatively small budget of Es5bn ($35m), but for the image campaign in Spain additional government funds of about Es1bn have been made available. "It is the first time we have done this in such a big way", Mr Marques says.

PROFILE: Sapec

Setubal site for ambitious industrial park

SAPEC, a Belgian owned company set up in 1926, has grown rich over the years turning Portuguese pyrites into phosphate fertilisers.

Today, however, the now diversified agro-services and animal feeds group is attracting interest because of another potential transformation: an ambitious plan to develop a centre for high-tech and other industries on a 400 hectare site around the Atlantic port of Setubal.

The port serves shipping lines linking Portugal with every continent. It is just 30km from Lisbon, at the junction of the main highways and railways that link the country with Spain.

As its name suggests, Sapec Silicon Bay is not short on marketing hype – but the commitment and imagination

The extensive infrastructure is an important asset

of its parent company and Portugal's urgent need for private sector ventures of this sort suggest that the project deserves further attention.

According to Mr Eduardo De Almeida Catroga, managing director of Sapec in Portugal, the idea of the new industrial park is to exploit an area of land acquired by the company in the 1930s but which is only partly used for its own processing activities.

Among the key assets is the site's infrastructure – a railway terminal built originally to transport pyrites from Sapec's mines in the interior, an extensive port facility for shipping out the sulphuric acid and fertilisers produced from the mineral, and a small airport which was needed for crop spraying activities.

Sapec, says Mr Catroga, has earmarked Es3bn to invest in three stages over the next 15 years and ultimately hopes to accommodate around 200 companies. Around 40 or 50 Portuguese and foreign businesses have been in contact and at this early stage there are just three firm takers, all of them

EC support is being sought via the structural funds

foreign: a company with interests in granite and marbles, a manufacturer of oil tanks, and an agri-business. "We would prefer high-tech but in view of the scale of the park it is difficult to insist on that", says Mr Catroga. "We do, however, insist that companies coming in are non-polluting".

Essentially there will be three sections of the park – one linking directly with the port facility, one for light industries (high-tech and services), and one close to the airport. Sapec also envisages three possible relationships with businesses: the first where it provides maintenance and management services for a straight fee (for example, data processing, accounting and import-export services), the second where it takes an equity participation, and the third where it does no more than sell or lease the land/unit.

European Community support is being sought via the structural funds, notably the Renaval project for breathing new life into areas like Setubal affected by the decline of shipbuilding. Mr Catroga says the authorities in Lisbon still need some persuading that a privately owned park is worthy of wholehearted public support.

Tim Dickson

The recent row over new government measures reflects wider concerns, writes **Tim Dickson**

Banks prepare to meet the single market

HOWLS OF protest erupted in Lisbon last month when the government announced controversial new measures to control the setting up and expansion of private banks.

Confusion and misunderstanding of official intentions were partly to blame – but the row reflected wider concerns at the manner and speed with which Portugal's financial services sector is being prepared for the challenge of a single European Community market.

Extraordinary as it may seem even for a newish member country of the EC, between 80 and 90 per cent of the banking system in Portugal remains in state hands.

Nationalised in the wake of the 1974 revolution, the major Portuguese banks were forced to play a pointedly social and political role in the late 1970s and early 1980s, lending to weak companies at low rates of interest and required to take onto their books doubtful government loans made at the height of the Angola war.

Weighed down as a consequence by a mountain of bad debt – currently estimated at Es260bn (US $1.4bn) – state banks are today suffering from inadequate capital bases, overstaffed and elderly workforces, and (in some cases at least) poor management.

Mr Anibal Cavaco Silva, head of Portugal's centre-right government, has prescribed a strong dose of privatisation as the only long term cure – but as events so far this year have shown, administering the necessary medicine is proving easier said than done.

Despite hopes that the programme would be further advanced by this stage, the only state bank to have been almost fully privatised is the Banco Totta e Acores. An initial 49 per cent stake was sold last year, and a further 31 per cent successfully disposed of in July. The state will retain a 20 per cent state in the bank for the time being.

Three insurance companies and six other financial institutions – Banco Portugues do Atlantico, Banco Espirito Santo e Comercial de Lisboa, Banco Fonsecas e Burnay, Banco Pinto e Sotto Mayor, Credito Predial Portgues and Sociedade Financeira Portuguesa – are earmarked for similar treatment but as yet there is no firm timetable.

Ashley Ashwood

After 128 years in Portugal, Lloyds Bank is to sell its operations to Spain's Banco Bilbao Vizcaya

Banco Portugues do Atlantico will be the first major state-owned commercial bank to be partly privatised with the sale of 33 per cent of the bank's share capital set for November or December.

The government sees privatisation as the only cure

One of the government's major difficulties is the lack of major financial and commercial groups in Portugal capable of stumping up the necessary capital for the sales.

The local stock market is poorly developed and though the country's savings rate is among the highest in Europe people do not generally buy shares, preferring instead to put their savings into high yielding and safer government treasury bonds and certificates. Share prices have proved highly vulnerable to the whims and fancies of foreign investors.

Foreigners, of course, could easily provide the money to make the privatisation programme a financial success – but this is politically sensitive and controversial. Critics have already accused the authorities of failing to defend the national interest and it appears that at least another one or two institutions will have to end up safely in Portuguese hands before significant foreign ownership can be contemplated.

Asked about the relevance of such a policy ahead of 1992 – when these sort of curbs will have to come off – government officials and state bankers talk of the need at least to maintain a Portuguese "noyau dur".

At the moment outside interest in the Portuguese banking market comes predominantly, though not uniquely, from Spain. Banesto, for example, secured a 10 per cent stake in BTA though indirectly is thought to control considerably more; Banco Bilbao e Viscaya has acquired the Lloyds Bank network; and Banco de Santander and Royal Bank of Scotland have just under 50 per cent of Banco Comercio e Industria (BCI), given them effective control. It is not yet an invasion – but it could become one.

The row between the finance ministry and the private banks over rules for setting up and expanding their branch networks appears to have been settled, and the central bank has announced authorisations for over 100 new branches – but it has nevertheless highlighted the government's anxiety to maximise revenues from the state banks sales and fuelled criticism that recent actions contradict its liberal free market rhetoric.

In return for permission to establish themselves, open new branches, or change their status from investment companies to banks, the Bank of Portugal will now require that foreign and private institutions buy or pay for a package of state-owned bad debts at premiums above their market value.

Much of the fuss stemmed from fears that the private banks would actually have to take the bad debts on to their own books, thereby tying up large sums of capital and requiring management time in the pursuit of loans which had never been their responsibility. In fact, the banks can as an alternative make a payment into Finangest, a state-owned institution established some years ago to deal with the problem of bad credits.

The sums involved are Es900m ($6.5m) for opening a new bank or transforming an investment company into a bank; Es250m for a change of status from that of a full branch of a foreign owned institution to that of a locally incorporated bank; Es40m for each new branch in Lisbon and Oporto; and Es20m for branches elsewhere.

Ashley Ashwood

Francisco Veloso, president of BCI, says his bank's 1989 costs/income ratio was just 28 per cent

Justification for the government move is confidently provided by Mr Antonio Borges, vice-governor of the Bank of Portugal.

He refutes the idea that

The local stock market is poorly developed

there is any wish to restrict branch expansion "but at the same time as the private banks grow we want to strengthen our own system".

He points out that the state banks are under pressure from many other directions – trying to come into line with EC capital ratios, rules for bad debt provision, and meeting their huge pension liabilities.

"We can't be accused of favouring the public banks, quite the opposite in fact. For us the new system [for authorising branches, etc] is transparent and open and reflects a more market based approach".

Notwithstanding the banks' protests there is every reason to suppose that most will bite the bullet and pay up, though some banks may hold back for a while on their expansion plans. Portugal is underbanked – one analyst calculates that there is room for say 2,500 branches compared with the existing 1,700-1,800; personal banking services are poorly developed; and with the anticipated tightening of margins in a more competitive market many banks are eager to build up a broader deposit base.

The private banks, moreover, appear to be doing very nicely. Figures for the first quarter of 1990 show that the 13 domestic and foreign institutions operating in Portugal enjoyed an average increase in cash flow of 106 per cent to Es19.3bn – though the figures were inflated by profits for

Some banks may hold back on their expansion plans

Banco Portugues de Investimento's from the sale of its holding in Banco de Comercio e Industria to Spain's Banco de Santander.

A major reason is that overheads are low and flexible in the recently established private banks by comparison with the cost burdened state sector. Mr Francisco Veloso, president of BCI, for example, says his bank's costs/income ratio last year was just 28 per cent, less than half the average rate in the UK.

Mr Miguel Rosa, an economist at the highly successful Banco Comercial Portugues (BCP), says BCP's costs represent three percentage points of financial margins, against the 6-7 per cent typical elsewhere. "We can cut our margins without losing money", he observes.

Such a cut, he implies, may be necessary as competition increases and if the recent trend towards more expensive deposits continues. Mr Rosa indeed expects profits for the Portuguese banks as a whole to peak this year in line with the slowdown in the economy. He thinks a 2 per cent increase in GNP would be creditable for next year, notwithstanding the official forecast of 3.5 per cent.

Looking ahead to developments in a single European market, Mr Rosa believes there will be much more attention on providing services for the personal sector. At the moment, he points out, the effective continuation of credit controls means that the corporate sector is getting first priority – but the housing market (where three state banks hold a virtual monopoly), consumer credit, and ordinary personal loans look set to be opened up to new competition. A 10 per cent surcharge on call loans to the personal sector has recently been reduced to 7 per cent but this is just one of a number of restrictions which will have to disappear in 1993.

Mr Rosa sees the Caixa Geral de Depositos, the powerful state savings bank which dominates 40 per cent of the banking market in Portugal, remaining an effective force by virtue of its sheer size and marketing network. But by the mid- to late 1990s – when EMS entry at the very least will apply new competitive pressures – he predicts that there will only be room in the market for a handful of Portuguese banks.

Brussels is the focus of foreign policy, writes Tim Dickson

Growing relationship with the European Community

AN ELEGANT African woman balancing a basket on her head offered a vivid reminder in Lisbon this month of the country's colonial past.

Portugal's preparedness in recent weeks to make its Azores military bases in the Atlantic available for United States missions to the Gulf – an area outside the Nato framework – has underlined its close ties with Washington.

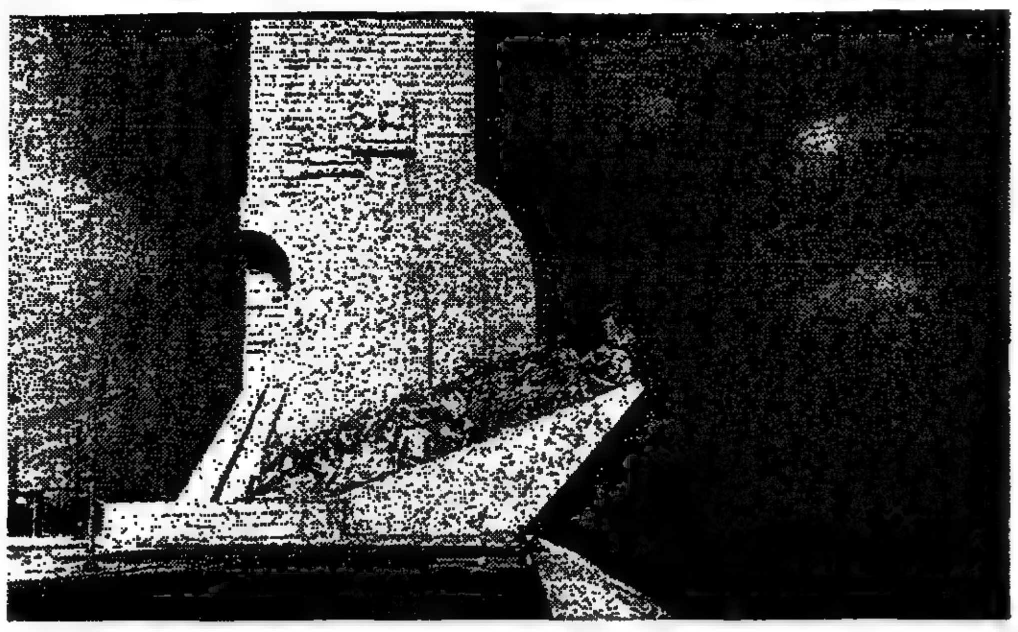
But of the various strands of Portuguese foreign policy, the most important is the growing relationship with the European Community.

Portugal has done extremely well out of the EC since joining the Brussels "club" in 1986. Showered with structural fund money to help its farmers and businessmen, enthusiasm for deeper integration appears to be shared by politicians and ordinary people alike, particularly the young.

EC membership is given much of the credit for Portugal's rapid growth in the last five years, for low unemployment and substantially enhanced family income, and for sealing the country's happy return to democracy after so many decades in the wilderness of dictatorship.

It also seems to have brought Lisbon closer to Spain, with whom relations over the past half century in particular have tended to be tricky. There is not as yet a consistent Iberian approach to EC negotiations – indeed, while often on the same side the two countries, have important interests which do not converge – but there is a growing realisation in Lisbon and Madrid that the two southern states have much to gain from presenting a united front to their powerful northern European partners.

Enthusiasm for deeper integration appears to be widely shared



The Monument to the Discoveries, near Lisbon, is dedicated to Portugal's empire builders

Mr Anibal Cavaco Silva, prime minister of Portugal's centre-right government, now subscribes to most of the rhetoric about economic and monetary union (Emu) and the "need to give the political dimension of the EC more coherence". But while he seems happy to aim for the final goals – especially, say commentators, since developments in the eastern bloc – he also betrays a strong hint of anxiety about the pace of further integration and the means needed to achieve it.

"If we go to another stage of the EC's development", Mr Cavaco Silva has said, "the EC has to show that at the same time it is able to accomplish the main aims that have already been clearly defined, namely the single market and economic and social cohesion".

Listeners are left in no doubt that substantial extra funds from Brussels will be required to overcome the country's structural handicaps "in education, in administrative efficiency, in technological development, and in distance from the markets". The Delors report on Emu, Mr Cavaco Silva points out, specifically drew attention to the need for "structural actions" to correct economic imbalances and "to ensure the smooth process of financial integration".

Lisbon's pragmatism on Emu finds a distant echo in London

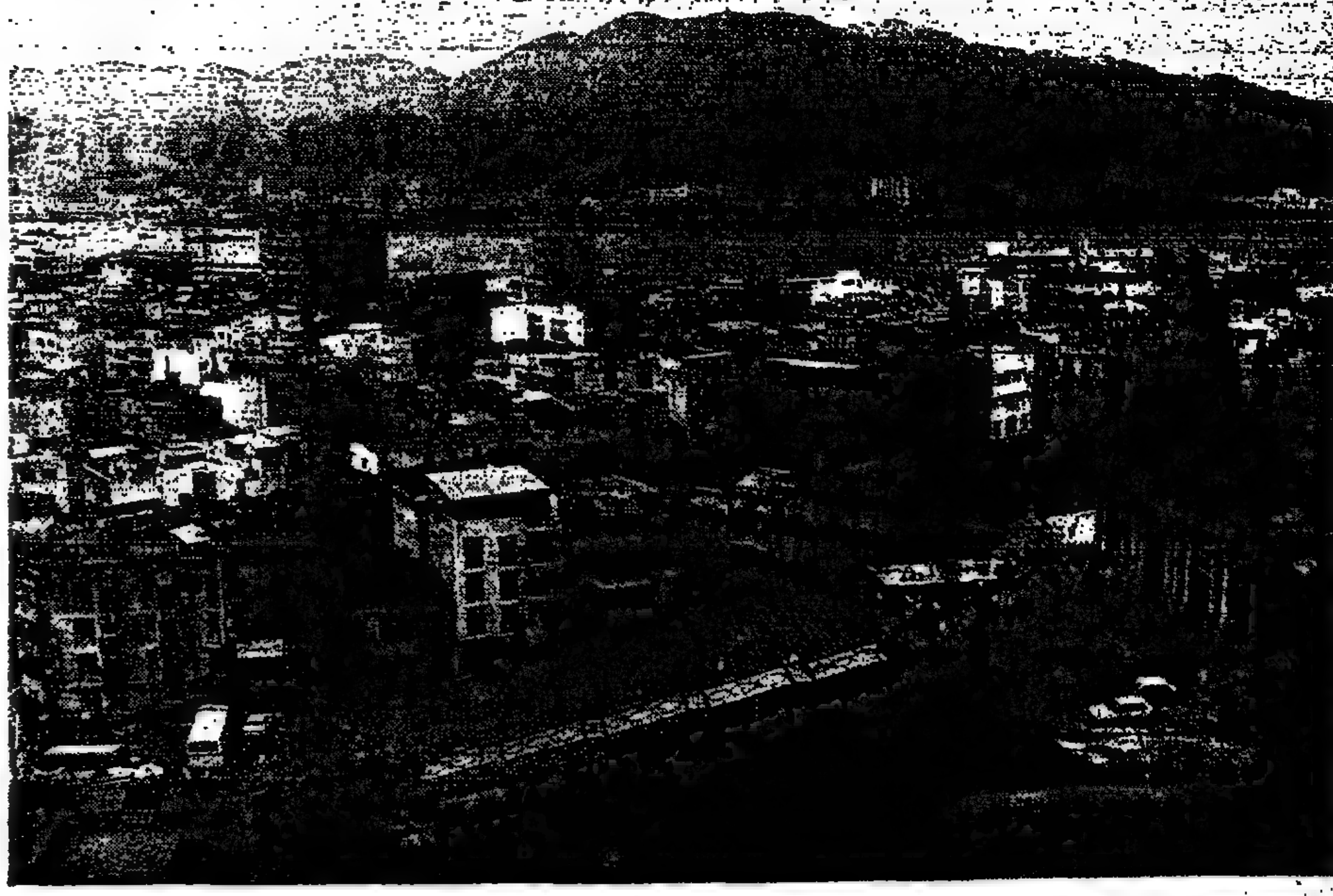
The prime minister's tone may be altogether different to that of his UK counterpart, but his emphasis on pragmatism – "I want to move without jumps" – finds a distinct echo in London. He says Portugal intends joining the European Monetary System "much earlier than 1995" – a comment made before sterling's entry into the exchange rate mechanism and which will now appear even more of an understatement. In the meantime reducing the budget deficit and inflation will be the main economic priorities.

Portugal's EC strategy is summed up by one experienced local political commentator, perhaps a shade cynically, as "demonstrating enthusiasm and commitment [to] integration but never putting our position into concrete terms." That way, he explains, "we are able to bargain for everything possible".

Negotiations are already under way on arrangements for Portugal once the current EC structural fund timetable comes to an end in 1993. Although officials in Lisbon insist that no official demand has been lodged with Brussels for a new PEDIP – the Ecu1.3bn programme designed to boost Portuguese industry – they admit that this is their aim when the money runs out in 1992. They decline to comment on rumours that this, along with a fund to help support the escudo in the run up to a single EC currency, will be used as a negotiating chip in the forthcoming inter-governmental conferences on Emu and political union.

For its part, Brussels is likely to impose stricter criteria on the disbursement of new structural funds once the deal with Lisbon has been settled.

Few in Portugal deny that some of the EC riches have been imprudently spent and have been used to increase production in the short term rather than to modernise the economy in the manner originally intended.



Macao is due to be handed over to Peking in 1999, though China claims that preparations are 'sluggish'

The success of negotiations between Lisbon and Brussels – plus the impact on Portuguese markets of increased competition as 1992 approaches and the feared "magnet" effect from eastern Europe - will determine how Portugal's relationship with the EC develops.

Whatever happens, though, there would seem to be little turning back. Portugal's foreign trade is now 70 per cent dependent on the rest of the EC, against 60 per cent at the start of the 1980s.

This is not to say that the small Iberian state necessarily wants to downgrade its other areas of foreign policy interest, namely its Atlantic policy and its relations with extra-European regions such as Latin America and sub-saharan Africa. "The linkage is obvious", says foreign minister Mr Joao de Deus Pinheiro. "We think that Europe cannot be isolated from the regions in which it has natural relations, that is to say the American continent, north and south, and Africa".

The Atlantic is a vital psychological link with the outside world

For Portugal, the Atlantic remains a vital psychological link with the outside world. Lisbon is proud of its generally good relations with Brazil and with the Portuguese-speaking countries of Africa – Angola, Mozambique, Cabo-Verde, Guinea-Bissau and São tome e Principe – but there is little support for the idea of a world wide economic grouping based on language. The emphasis today is more on preserving the cultural heritage and contributing to the peace process in Angola and Mozambique, as well as developing relations with non-Portuguese speaking countries outside Europe, notably Morocco.

Portugal is not without its foreign policy embarrassments but these are mostly confined to the former empire's eastern flank. The recent resignation of the Governor of Macao, for example – after he was served in Lisbon with a summons connected with alleged bribery over an international airport contract – has come at a sensitive time, given China's impatience at what it claims is Portugal's sluggishness in preparing for the handover to Peking in 1999.

The resignation of the Governor of Macao came at a sensitive time

In East Timor, to which Portugal lays no territorial claim, Lisbon has remained in direct conflict with Indonesia since the latter's invasion and military occupation in December 1975.

Since Portugal's accession to the European Community, much of its diplomatic efforts have been directed towards finding itself a new bridging role between Europe and the Third World, and in promoting north-south dialogue. Its peace-making attempts in Africa, for example to end Angola's civil war, have had limited success, though they undoubtedly helped to bring the two sides together in direct talks.

While similar concerns will continue to occupy Portuguese diplomacy, and form part of Portugal's agenda for its first EC presidency in the first half of 1992, as that date nears, the focus is likely to shift increasingly towards Europe and Portugal's position within it.

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Portugal's farmers face a difficult period of transition, including an end to import controls. **Tim Dickson** reports

Inefficient agriculture struggles to become competitive

PORTUGUESE agriculture has enjoyed the benefits of EC membership without many of the accompanying hardships. It remains largely shielded from outside competition, is supported by generous subsidies left over from the days of former dictator Antonio Salazar and is showered with investment funds by Brussels from a recently enlarged European Community budget.

However, this happy state of affairs is coming to an end. From 1 January, Portugal embarks on stage two of the 10-year transition period which it was given on its accession to the EC in 1986.

Considerable efforts to modernise have been made

It will have to come to terms with the dismantlement of many import restrictions and a progressive narrowing of the gap between its own high, guaranteed producer prices and the lower levels prevailing elsewhere in the Community.

These prospects send shivers of apprehension through Portugal's 800,000 farmers, 30 per cent of whom are officially illiterate and most of whom remain remarkably inefficient by EC standards, eking out a living from tiny plots of land with yields which are among the lowest anywhere in Europe.

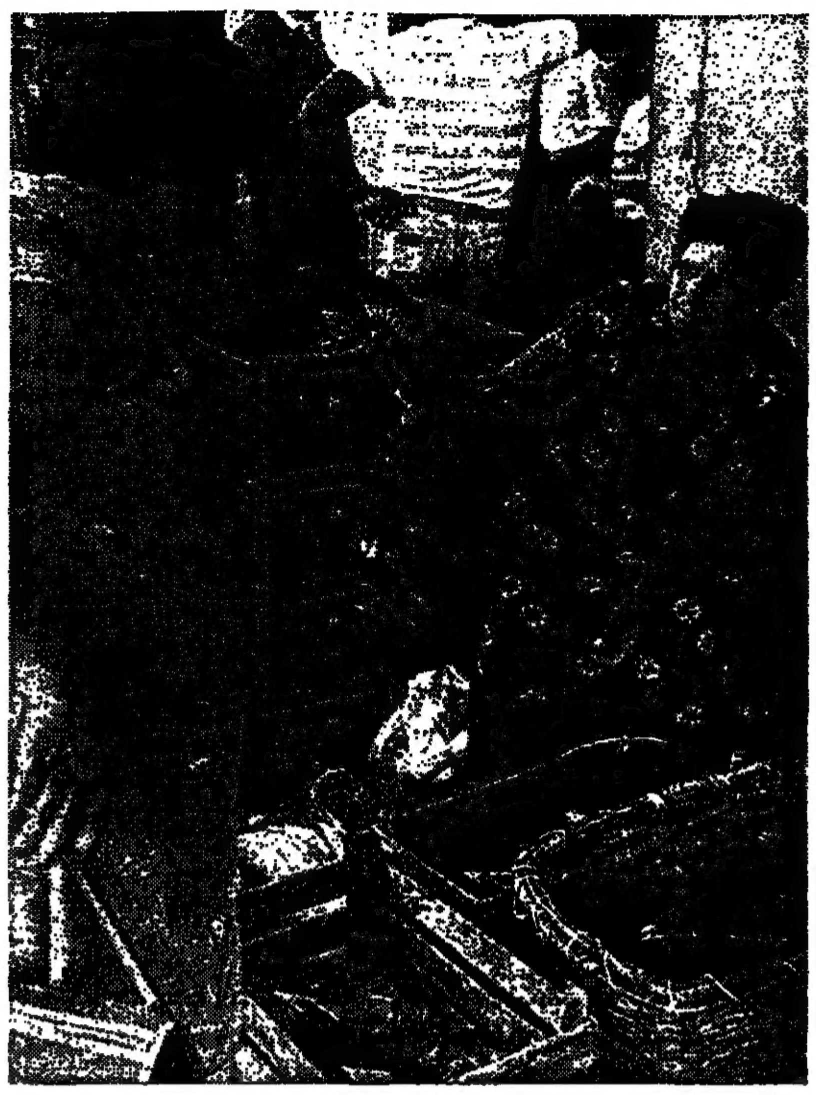
On average, for example, Portugal produces between 1.5 and 2 tonnes of wheat per hectare, compared with the 8 tonnes per hectare typical in the Netherlands.

Considerable efforts have been made over the last five years to modernise Portugal's agriculture, which roughly divides between very small family units in the north, where livestock farming preponderates, and much larger units in the cereals-dominated south.

Soil quality is better in the wetter area north of the River Tagus, but with the average agricultural holding in this part of the country a mere four hectares (often split up into as many as nine different plots), the rhetoric of European competitiveness seems barely appropriate.

There is probably more hope in the south, but badly needed investment in irrigation and new production methods has been held back, according to officials of the Associacao Central de Agricultura Portuguesa (ACAP), by confusion and uncertainty over local property rights.

Much of the land was confiscated and turned into huge co-operatives after the 1974 revolution and is only slowly – and, it appears, reluctantly – being returned to its original owners.



Above: hay-making near Ponte de Lima, in Minho province. Right, market day in the town of Loulé. By EC standards, Portuguese farming is backward

Mr Arlindo Cunha, the country's articulate young agriculture minister, says that given Portugal's backwardness, the emphasis during the first stage of EC membership had to be on improving structures.

He highlights processing and marketing as particularly weak areas – notably for cereals, meat products, fruit and vegetables – but says that attention has also been paid to boosting production methods and infrastructure.

Portugal now fully participates in the various structural mechanisms of the Common Agricultural Policy – including its own Ecu700m, 10-year programme known as Pedap – and, according to Mr Cunha, the result over the last five years has been the launch of 45,000 new projects, involving a total investment of Es300bn (including Portuguese budget payments and the farmers' own contributions).

Much of the land was confiscated and turned into huge co-operatives after the 1974 revolution and is only slowly being returned to its original owners

EC officials in Brussels confirm Portugal's success in obtaining Community support, pointing out that the Iberian country is the third biggest beneficiary this year of the Ecu1.7bn agricultural structures fund.

There is "reasonable satisfaction" at the way the money has been used, notwithstanding a suspicion that some projects have been over-generously funded.

Mr Cunha, for his part, expresses particular pleasure at the success of a scheme which has supported 5,000 young farmers (thereby helping to tackle the elderly age profile, one of the sector's biggest weaknesses).

He insists that the "structural" effort will continue in the forthcoming second stage – "to create the minimum conditions for competitiveness" – but points out that the government also plans to give specific attention to marketing and technical support.

A new scheme has been set up to help farm organisations employ new skills in this area, for which at the moment they are largely dependent on the state bureaucracy, while another programme will finance more professional management in agricultural co-operatives.

The going is likely to get tougher, judging by proposals for the second stage of Portugal's adjustment to the CAP agreed by the European Commission in Brussels last month and due to be confirmed by the EC Council of Ministers in December.

Lisbon "is not entirely satisfied" with the package, says Mr Cunha, although he concedes that "some of our main demands have been met".

In the cereals sector, for example, the main difficulty was the 50 per cent gap between Portuguese and Community prices (Es50 per kilo for Portugal, against Es34 per kilo for the EC) – a difference which Mr Cunha says is too large to eliminate in five years, especially when international pressure seems certain to force EC prices lower still.

Brussels has agreed to extend the transition period to 2001

Brussels has therefore agreed to extend the transition period to 2001, on condition that the extra support is provided through direct income aids and not via a guaranteed price.

Mr Cunha says this will give farmers in southern Portugal time to find alternative crops, as well as improving the competitiveness of the livestock sector which will benefit from lower EC prices for their animal feed.

Extra concessions have also been secured in the dairy sector, where Portugal will acquire a milk quota for the first time from the start of the new marketing year next April.

Despite the EC's continued overproduction, Lisbon has been given some headroom with a quota of 1.9m tonnes per year (compared with an estimated current production of 1.7m to 1.8m tonnes).

Portugal's desperately inefficient dairy industry – on average there are just 3.6 cows per farm – should ultimately benefit from the restructuring effort and redress some of the deficit the country runs in this sector.

With fresh milk, butter and cheese consumption all expected to grow – all are well below the European average – the government is keen that its own producers and not just importers should have a chance to cash in on the potential.

Lisnave, described as a 'service station on the highway', handles more tonnage than any other yard. **Peter Wise reports**

Ship repair specialist puts new life into old tankers

PORTUGAL's seaborne empire faded five centuries ago, but the maritime flair that inspired the design of the caravels that carried Vasco da Gama and Fernao Magalhaes on their voyages of discovery is still alive.

Today, Portugal leads the world not in building ships, but repairing them.

The repair yards of Lisnave – Estaleiros Navais de Lisboa – with their dry dock capacity of 1.8m tons and 2.7km of repair jetties, are the biggest in the world. They handle more tonnage than any other yard and account for more repairs than their top four European competitors put together.

Confrontation in the Gulf makes Lisnave's location more important

Investment analysts who last year predicted a golden era for Lisnave saw their expectations fulfilled as first-half sales increased by 48 per cent, compared with the same period of 1989.

However, a cloud appeared on the horizon in August when Iraq's invasion of Kuwait cast doubt over the future of the oil tanker market.

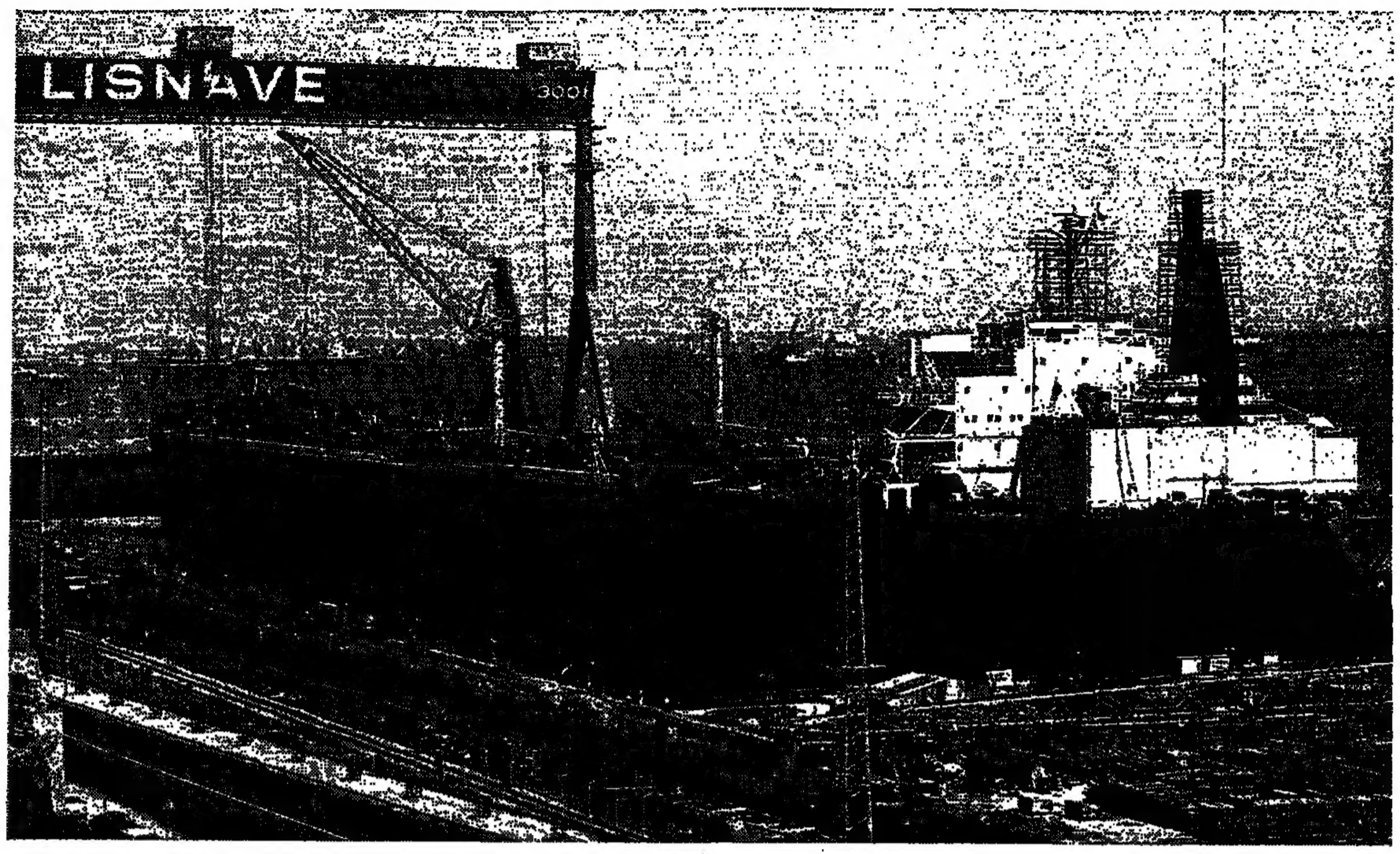
Large-scale laying up of tankers as a result of an oil crisis would hit Lisnave, which depends on repairs to very large crude-oil carriers (VLCCs) for half its sales.

But although forecasts of the yard's performance are now more prudent, its fundamental competitive advantages suggest that growth prospects will remain strong, whatever the outcome of the Gulf crisis.

Lisnave's location on both Atlantic and Mediterranean sea lanes – "a service station on the highway", as one client puts it – is a key asset.

The confrontation in the Middle East gives the location factor additional importance, as ship owners are expected to divert repair business away from competing yards in Bahrain and Dubai, and possibly from the eastern Mediterranean.

Labour costs also give Lisnave a crucial edge. Nominal wages are one-fifth of those of the yard's main European competitor, West Germany's Blöhm and Voss. Allowing for productivity and overhead differentials, this translates into a 50 per cent difference in prices. Lisnave's real wages costs are expected to increase four per cent per capita by the end of 1992.



Very large crude-oil carrier (VLCC) under repair at Lisnave yards, the world's biggest

A pact with the unions has kept the yard strike-free since 1986

But the underlying reason for confidence in Lisnave's future is a fundamental change in the philosophy of ship repair.

Recent legislation in the United States, making shipping companies responsible for unlimited liabilities should their vessels be involved in incidents of maritime pollution, has made owners highly environment conscious.

Instead of docking their vessels irregularly for minor maintenance or urgent repairs, shippers are beginning to adopt the planned maintenance principles of the aerospace industry.

This involves long-term agreements with repair yards to carry out major planned repairs and life extension maintenance, both to ensure the safety and prolong the active service life of vessels.

In March, Lisnave signed a contract with Chevron Shipping Company to provide regular repairs for the tanker fleet of what is one of the world's seven largest oil companies.

The agreement, which is expected to set a precedent for a new approach to ship repair, involves linking the on-board computers of Chevron vessels to Lisnave to provide permanent monitoring of maintenance and repair requirements.

This improved outlook for repairs has coincided with Lisnave's recovery from one of the most difficult periods of its 53-year history.

The crisis which affected the entire shipbuilding industry in the 1970s was aggravated at Lisnave by serious labour problems that left the company struggling for survival.

A breakthrough came when the company signed a pact with the unions, which has kept the yard strike-free since 1986.

Early retirement and voluntary redundancies have reduced the workforce from 11,000 to 3,700.

The turning point came at the beginning of 1989 when the government backed an agreement between Lisnave and several state-owned banks to convert debts of Es25bn, which were leading to crippling interest payments, into a 17-year soft loan at an annual interest rate of 2.5 per cent.

Having increased sales more than five-fold since 1985, the company forecasts a 27 per cent rise in profits to Es460m ($3.3m) in 1990. Sales will grow 24 per cent to Es25bn.

Instead of docking their vessels irregularly, shippers are beginning to adopt the planned maintenance principles of the aerospace industry

Real growth in sales, allowing for inflation, will be roughly 11 per cent, falling to 5 per cent in 1991.

In this climate of renewed confidence, Lisnave has increased its share capital from Es2bn to Es13.75bn in three separate operations opened to existing shareholders since June 1989.

Foreign banks such as National Westminster and Banque National de Paris, acting on behalf of mutual funds, are reportedly active traders in the 20-25 per cent of Lisnave's equity that is liquid on the Lisbon stock market. The main shareholders providing the company's stability are Portugal's Mello Group with 34 per cent, Luxembourg-based Swedut Holdings (17 per cent) and the Portuguese state (15 per cent).

Lisnave's investment plans focus on related activities including industrial maintenance and repair outside the shipping area and ship repair, oil and metallurgical activities in Angola.

The company has also acquired a 35 per cent stake in Solisnor, which holds a concession to manage the state-owned Setenave ship building and repair yards in Setubal. Lisnave and Solisnor together now account for 15 per cent of the world ship repair market.

The Gulf crisis has, of course, caused concern at Lisnave.

Some shipping industry analysts believe there is a current excess of 23 VLCCs. This could lead to lay ups, with the oldest vessels, those most likely to need repairs, being the first to be withdrawn from service.

But although Lisnave has noted a drop in enquiries from potential clients, the yard continues to work at full capacity.

Several factors indicate that demand for repairs will remain strong.

The average age of the world oil tanker fleet is 13 years, meaning that many vessels are near the end of their normal life of 15 years.

However, because new building has been virtually frozen since the Gulf crisis erupted, owners will be seeking to extend the life of their ships through major repair and maintenance work.

More immediate troubles to Lisnave are domestic economic problems such as the escudo exchange rate and inflation. The company faces a declining income resulting from a 15 per cent depreciation of the dollar against the escudo since January.

At the same time it is having to contend with increased costs, with inflation expected to reach 13.5 per cent this year,

Immediate problems are the escudo exchange rate and inflation

and corresponding wage demands.

"Our competitive advantages are keeping us buoyant despite such difficulties", says Mr Jose Viegas Dias, Lisnave's managing director.

"When we have the economic winds behind us as well, strong revenue will be assured."

THE TOP SIX EUROPEAN SHIPYARDS – 1989

Yard	Country	Tonnage handled	Ships
Lisnave	Portugal	12,381,481	123
Setenave	Portugal	4,595,363	45
Blöhm + Voss	Germany	4,378,018	68
Arno-Dunkerque	France	4,343,429	65
Hellenic Shipyards	Greece	4,115,295	55
Astilleros Espanoles-Cadiz	Spain	3,417,776	55

Source: Lisnave

SOME visitors were tossing pheasant bones over their shoulders and belching with unrestrained relish. Others were beating tankards on the tables in time with a raucous drinking song as flushed waitresses brought more flagons of wine.

But these drinkers were not package-tour carousers intent on taking a crowded Algarve resort further downmarket. They were historically-minded excursionists hot on the pursuit of culture, doing their level, if not horizontal, best to lend authenticity to the recreation of a medieval banquet.

The scene was the 14th century Flor da Rosa convent at Crato in the Alto Alentejo region close to Spain. The banquet for 1,000 people, followed by a jousting tournament and an exhibition of falconry, was organised by the regional tourist board to promote a holiday itinerary that it hopes to develop around the region's 17 castles.

Specialists from the Portuguese Association of Armourers and professors of history collaborated in staging the event to ensure the greatest possible authenticity, from the weight of the swords wielded by horsemen from the National Republican Guard to the herbs used to spice the roast boar.

Many regions are drawing on history and tradition

"Our aim is not to put on a Hollywood-style show but to recreate events with the greatest possible historical and cultural rigour", says Mr Miguel Sandres de Baena, a military historian who has been researching tournaments for 25 years.

The Alto Alentejo is one of many Portuguese regions beginning to draw on their wealth of history and tradition to establish themselves as tourist destinations.

The imposing Flor da Rosa convent is among several local buildings of historic interest that are being made into state-owned inns, known as pousadas.

Officials expect the number of hotel beds in the region to grow from 1,200 to 2,500 over the next few years.

"We hope initiatives like the medieval tournament will be taken over by commercial tourist operators and developed into regular events as part of a established holiday itinerary", says Mr Francisco Camilo, president of the Regiao de Turismo de Sao Mamede, the regional tourist board.

Local authorities believe a potentially lucrative market lies just kilometres away over the border in Spain, which last year accounted for 74 per cent of the 16.5 million tourists who visited Portugal.

The Flor da Rosa tournament was part of a national effort being made to diversify Portuguese tourism.

Officials would like to reduce over-dependence on the Algarve, which accounts more than half the country's 150,000 hotel beds, and on the British holiday-makers.

Visitors from the UK, although only 7 per cent of the total, contribute some 30 per cent of tourism earnings, which last year grew 17.1 per cent to Es318.9bn ($2.3bn).

Restrictions have been imposed to control the growth of tourism in the most developed areas of the Algarve, where concern has grown for the quality of Portuguese tourism should the high number of charter flights bringing package tours from Britain increase. EC-funded investment incentives are being used to encourage tourism projects into areas and activities other than sun and sand beach holidays.

"We are seeking thematic diversification more than geographic diversification", says Mr Antonio Marques of the Directorate General of Tourism.

"Tourists today seek a particular activity more than a particular destination and it is our aim to respond by providing a wide range of products, from gastronomic and cultural tours to adventure holidays and business congresses."

"In tourism as in industry, Portugal's future lies in quality not quantity", says Mr Paulo Vallada, a businessman and a former mayor of Oporto. "The secret is to offer visitors the best of what we have: a gentle, welcoming people, traditions, tranquility and a beautiful country."

'Portugal's future lies in quality not quantity'

Mr Vallada is part of a group developing an exclusive 20,000-hectare hunting park in the remote north-eastern region of Tras-os-Montes.

As well as wild boar, deer and trout, the development, which will include restored country houses, a conference centre and a heliport, will offer total seclusion, peace and luxurious service. "Silence, beauty and quality of life should be among Portugal's leading exports", says Mr Vallada.

Tourism contributes about 9 per cent of GDP and accounts for 27 per cent of foreign investment.

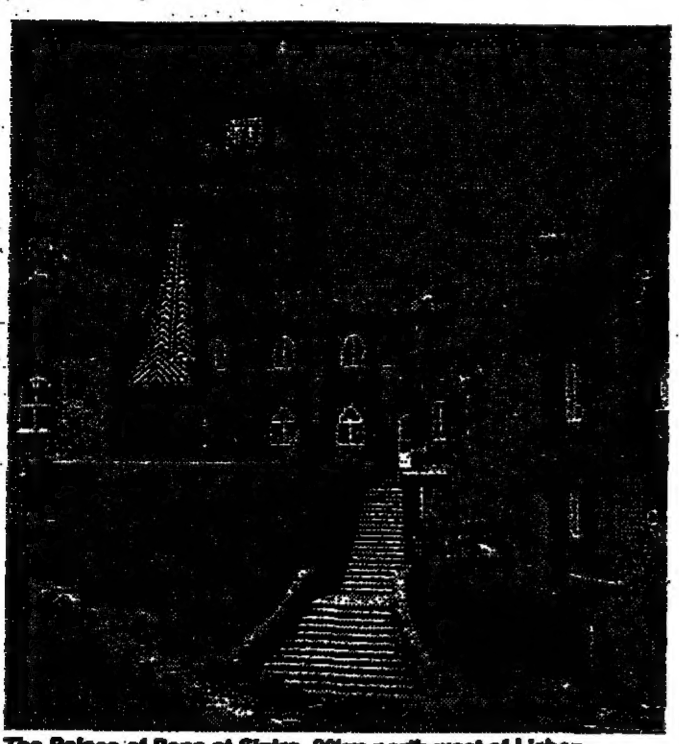
This year officials are predicting a boom. While competitors such as Spain were lamenting a drop in visitors, Portugal's income from tourism had already risen to Es170 bn (US$1.2 billion) during the first six months of 1990, a 17 per cent increase on the same period last year.

A record 19 million tourists are expected to have visited the country by the end of the year, a 15 per cent increase on 1989. Last year, the increase in the number of tourists was only 2.5 per cent.

Peter Wise

TOURISM

Authorities seek Algarve alternatives



The Palace of Pena at Sintra, 30km north west of Lisbon

FOREIGN VISITORS TO PORTUGAL 1989

	Visitors (1,000)	% of total	% change from 1988
Spain	12,187.2	74.0	+0.5
United Kingdom	1,137.5	6.9	-0.2
France	646.8	3.9	+9.0
West Germany	611.3	3.7	+7.5
Holland	332.8	2.0	+16.7
USA	235.5	1.4	+5.5

Source: Directorate General of Tourism

The first private TV channels go out to tender next month

End of monopoly raises fears over future financing

IF HE had known what would happen in Portugal, the late Lord Thomson of Fleet may never have described commercial television rights as a licence to print money. Portuguese media companies fear the risk of losing money is so great that there may be no candidates when the country's first private channels are put out to tender in November.

Potential bidders for licences believe that a recently-approved bill that will allow two private channels to compete alongside the two state-owned channels is so restrictive as to place serious doubt on the viability of private broadcasting in a market where investment in advertising is the lowest in the European Community.

"Faced with what are considered the most restrictive regulations in Europe, we are currently more inclined to drop out of the running altogether than to risk losing our capital", says Mr Carlos de Melo Heitor, a director of Sociedade Independente do Comunicacao (SIC), one of the three main contenders for a broadcasting licence. "If the uncertainties are not clarified, the government may find it has no serious candidates for private television at all."

Most polemical is a requirement that, within three years, 40 per cent of private broadcasting should be in Portuguese. This means creating a television production industry almost from scratch. Feature films account for 30 to 50 per cent of private television broadcasts in Europe. But Portugal has virtually no cinema industry and only two small independent television production companies. This is not even enough to meet the needs of RadioTelevisao Portuguesa (RTP), the state network.

Companies believe that Portuguese drama and entertainment programmes will be a crucial factor in capturing audiences and accept that steps are needed to stimulate national production. New opportunities will open up for Portuguese actors, faced with closing theatres and diminishing audiences, and others in the creative arts. But companies fear the cost of building a production industry sufficient to meet the government's quota of national production could prove prohibitive.

A second question mark hangs over the funding of RTP. Even with a monopoly of television advertising and the revenue from viewers' licence fees, the state company struggles to break even. The government has pledged to abolish viewers' licences, which provide RTP with 10-15 per cent of its income. The company is also expected to lose 25-30 per cent of its advertising to the private channels. This raises doubts over the future financing of a company already under fire for using public money for major investments to defend itself from private competition.

"If RTP is competing with the private companies for advertising it must also compete on equal terms for funding," says Mr Daniel Proenca de Carvalho, representing a group led by media companies Edipress and Presslivre/Correio de Manha that is a potential candidate for broadcasting licence. "If the government gives RTP financial support so that it can afford to provide a better service than its competitors, the private channels will be forced to fold."

'If the uncertainties are not clarified, the government may find it has no serious candidates for private television at all' — Carlos de Melo Heitor, SIC

Companies say they are also being asked to invest blind in a new company that the government is setting up to handle transmissions. Public sector companies, including RTP, will hold a majority of the capital of the company, which will take over RTP's existing transmission network and adapt it to four channels. The private channels will also hold a stake. But potential candidates say they are being invited to invest without knowing whether they will be awarded a broadcasting licence or what the fees for transmissions will be.

"So many details are yet to be defined by the authorities that for a project which involves investments of more than Es10bn ($72m) we are still unable to calculate costs in the region of Es3bn-5bn", says Mr Melo Heitor. "That is a very high degree of uncertainty."

A limit of 15 per cent on the participation of foreign capital in the groups competing for a broadcasting licence is also giving cause for criticism. In Spain, where private television was recently introduced, an original limit of 25 per cent on total foreign capital was subsequently altered to 25 per cent on any single group, meaning four foreign companies can operate a private channel. "A private channel cannot survive in Europe without strong links to one of the five or six groups that dominate the market", says Mr Melo Heitor.

The SIC group, led by media magnate and former prime minister Mr Francisco Pinto Balsemao, includes France's pay-TV channel Canal Plus and Britain's Granada Television among its foreign partners. The Edipress group, which presents itself as the most purely Portuguese candidate, has not announced any foreign associations but is expected to open negotiations with foreign partners should it be awarded a licence.

Others have already pulled out. TV Nova, a company backed by Sonae, Portugal's largest private industrial and services group, had formed an association with the leading French commercial channel TF-1. But it suspended its project after Sonae failed to win a regional radio concession. Sonae said it refuses to compete for broadcasting licences that it accuses the government of awarding on a political basis. Critics say the government's approach to granting licences does not take sufficient account of capacity to offer an efficient service.

Another candidate, Portugal's powerful Roman Catholic Church, has entered the contest somewhat reluctantly. More than a decade ago, previous leaders of the governing Social Democrats promised to give the church all of RTP-2, the second state-owned channel, or at least a good proportion of its air time. After bitter wrangles, Prime Minister Mr Anibal Cavaco Silva has now told the church it will have to compete for a private channel, though church representatives say they have not abandoned hopes that they will be given access to RTP-2. The government's U-turn was partly for constitutional reasons and partly, say observers, because the prime minister did not want to provoke antagonism from a powerful lobby within RTP and risk having the country's only television network against him in the run-up to a general election next summer.

The church is expected to compete for a private channel through Radio Renascenca, a Catholic-run and highly successful commercial radio station. Some political analysts say it would be difficult for the government to reject a church candidacy — but Radio Renascenca cannot run alone, as no single group will be permitted to own more than 25 per cent of a private channel.

Finding suitable partners could prove difficult for the church. Industry observers consider that its intention to keep sex and violence out of programming raises a question mark over a future channel's commercial viability.

A general election is due in the first half of next year, and a decision on licences for the new TV channels is likely to be postponed. With many of the potential candidates uncertain about their own plans, it will be some time yet before the nationwide private channels get off the ground. The longer the delay, the greater the competition will be.

Peter Wise

Ashley Ashwood

Five years of growth have accentuated social inequalities. Some, such as these young dealers on the Bolsa (left) have prospered. Others face low wages and an inadequate social security system. Right, public sector workers demonstrate in Lisbon

Social problems persist, reports **Peter Wise**

Growth conceals poverty

FIVE YEARS of unprecedented economic growth have served to accentuate rather than alleviate social inequalities in Portugal, according to a broad spectrum of observers.

Announcing his decision to stand for re-election, President Mario Soares, a socialist, alerted the country to "pockets of poverty" that development has failed to eradicate. For his part, socialist opposition leader Mr Jorge Sampaio has berated the government for "fomenting yuppie egotism".

Rocketing car sales, jostling shoppers in hypermarkets and a proliferation of shiny new banks are among the outward signs of the prosperity many Portuguese are beginning to enjoy.

But critics say the positive impression made by record growth figures for production, investment and employment often diverts attention from harsher realities.

They draw attention to other statistics that show Portugal to have the highest infant mortality rate in the EC, the highest illiteracy rate and the worst record for road and industrial accidents. In Lisbon alone, an estimated 16,000 people live in shanty towns.

Critics also point to a country where 60 per cent of the retired receive a monthly pension of Es17,000 ($120) but city rents are as expensive as Bonn or Brussels; where almost half the population has no running water and where only 14 people in every hundred have attended school for more than four years.

Prime Minister Mr Anibal Cavaco Silva has made the extension of the benefits of development to all social groups and regions one of the three strategic objectives of his economic plan for 1991. But his government remains under

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attack for pushing its social democratic principles into the background in a favour of a more liberal economics.

"The government has been successful in stimulating confidence and dynamism among entrepreneurs", says Ms Elisa Damiao, an executive committee member of the Socialist-led Uniao Geral de Trabalhadores (UGT), one of Portugal's two national trade union confederations. "But it has been uninterested and ineffective in bringing a social dimension to growth."

Ms Maria do Carmo Tavares, an executive member of the communist-dominated union confederation, CGTP-Intersindical, points out that while Portugal is producing more and more wealth, workers' share of national income has been steadily falling, from 44.8 per cent in 1986 to 42.1 per cent last year.

Although gross domestic product increased by an annual average of 4.5 per cent from 1988-89, real wages grew by less than 1 per cent.

According to the US Bureau of Labor Statistics, Portuguese workers currently earn an hourly average of $3.40. Greek workers, the next lowest paid in Europe, earn twice that, the British three times more and West Germans more than six times as much.

Low wages are a major attraction for foreign investors in labour-intensive sectors producing for export – the only competitive advantage that enables thousands of tiny companies in the textile, footwear and other traditional industries to survive.

But as the approach of a sin-

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gle European market concentrates the minds of employers and workers, low pay is recognised less as the inevitable result of poverty and more as the root cause of industrial stagnation and ensuing social problems.

"Competitive strategy for many Portuguese companies simply means paying the lowest possible wages", says Ms Damiao. "It's an outlook that not only dooms most of those companies to failure but also undermines the development of the whole country."

Competition based on rock-bottom wages is not breeding the kind of companies that will build a prosperous future. More than 70 per cent of firms employ less than 10 people. In the textile sector, which accounts for 28 per cent of the industrial workforce and 30 per cent of exports, tiny subcontractors and sub-sub-contractors proliferate, most unable and unmotivated to invest in new technology, skills training or improved quality.

Dependent on fragile markets, burdened with high-interest bank loans and with only low labour costs to defend themselves, such firms have little to protect them from unfavourable changes in trading conditions. Unions estimate that 3,000 workers will lose their jobs this winter in the northern Vale do Ave region as textile companies fall victim to competition from Asia and eastern Europe.

The government, estimating that as many as 45,000 jobs could be lost in the area by the end of the century, has responded with a regional redevelopment programme, although the Es17bn ($122m) it is providing is less than one-sixth the amount proposed by local bodies.

On a national level, Brussels is helping finance a 16-year programme to modernise the textile industry, involving investments of Es750bn.

Low pay forms part of a vicious circle of poverty, inadequate social welfare and precarious employment. Small northern firms striving to cut costs employ tens of thousands of children under 14, whose monthly wages of Es10,000-15,000 ($70-$110) can represent 30 per cent of a family's income, according to union representatives.

Poorly protected by a social security system that fails to provide sufficient unemployment, sickness or other welfare benefits, workers accept low-paid, insecure jobs to make ends. They often agree to declare even lower wages than they are paid so that employer

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and worker can contribute less to a welfare system they have no faith in. "The reliance of so many companies on low wages not only perpetuates itself but contributes to a wide range of other pressing social problems", says Ms Damiao.

One of the problems is employment stability. Government opponents believe Portugal's official unemployment rate of less than 5 per cent, the lowest in the EC except for Luxembourg, is illusory – not because the figures are falsified, but because a high proportion of workers are employed in precarious, underpaid jobs. The number of employees working on short-term contracts has risen from 13 per cent in 1985 to 19-20 per cent now, according to a Socialist Party official.

Alleviating social inequalities is not simply a matter of spending more, the unions say. "Some governments manage their resources better than others, but the funds available will always be limited", says Ms Damiao. Instead, she urges more dynamic policies to equip Portuguese companies with a concern for technological improvement, quality products, professional training and marketing as more durable assets than low wages.

"We have to have the courage to make the survival of companies depend not on low wages or government subsidies but on the quality of their products and services. A higher unemployment rate that reflects the true state of the economy would be preferable to palliatives that fail to resolve the deep-rooted problems," she says.